

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Feng County Industrial Development and Construction Holding Group Co., Ltd.

HONG KONG, 6 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Feng County Industrial Development and Construction Holding Group Co., Ltd. (“FCIDC” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Feng County, Xuzhou City (“Feng County government”) would provide strong support to FCIDC if needed, in light of its full ownership of FCIDC, FCIDC’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and industrial park development in Feng County, Xuzhou City (“Feng County”), and the linkage between the Feng County government and FCIDC, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Feng County government may face significant negative impact on its reputation and financing activities if FCIDC encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that FCIDC’s strategic importance would remain intact while the Feng County government will continue to ensure FCIDC’s stable operation.

Key Rating Rationales

Feng County Government’s Ownership and Supervision: The Feng County government holds the full ownership of FCIDC through the Feng County Government State-owned Assets Supervisory and Management Office (“Feng County SASMO”). The Feng County government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Feng County government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Feng County and Strategic Alignment: FCIDC, as the key LIDC in Feng County, is primarily responsible for the investment, development and operation of infrastructure projects and industrial park development projects within the city. Serving as the key entity in charge of infrastructure projects throughout the Feng County High-tech Zone and Feng County Economic and Technological Development Zone, FCIDC is mainly engaged in road and pipeline construction and other infrastructure related projects with strong regional advantages. It is also entrusted with the function of industrial development in Feng County.

FCIDC plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: FCIDC received operational and financial support from the Feng County government. Besides, the Feng County government continued to inject capital, project-related assets and other kinds of assets into FCIDC to expand its asset size and diversify its business. Besides, the Feng County government will repurchase some infrastructure projects and provide policy supports to FCIDC to ensure its business operation. Given that it is the key entity for infrastructure construction and state-owned asset operation in Feng County, FCIDC has an advantage in acquiring related resources and major projects. We believe FCIDC is likely going to receive government support to support its daily business operation.

FCIDC's Financial and Liquidity Position: FCIDC's total assets showed a continuous growth trend in the past few years and reached RMB51.8 billion at end-September 2023, largely attributed to the asset injection from the Feng County government. The current assets of FCIDC accounted for 53.4% of the total assets at end-September 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and receivables. FCIDC's financial leverage (total liabilities to total assets) was 53.2% and its adjusted debt increased to RMB17.3 billion at end-September 2023 from RMB13.2 billion at end-2021. The liquidity of FCIDC was moderate. At end-September 2023, FCIDC had a cash balance and unused credit facilities of RMB2.9 billion and RMB2.6 billion, respectively, compared with its debt due within one year of RMB6.1 billion. Besides, FCIDC has access to various financing channels, including bank loans, non-traditional financing and bond issuance, to support its debt repayment and business operations.

Economy and Fiscal Condition of Feng County: Feng County is a county-level city of Xuzhou City, Jiangsu Province, and is located in the northwest part of Xuzhou. Feng County's economic growth fluctuated in the past three years due to the COVID-19 pandemic, with a year-over-year growth rate of 3.1%, 9.5% and 1.0% in 2020, 2021 and 2022, respectively. Feng County's GDP reached RMB54.1 billion in 2022, and ranked the 1th among all counties under the administration of Jiangsu. The aggregate fiscal revenues of the Feng County government are mainly derived from government fund income and transfer payment from the higher government. The budgetary revenue increased to RMB3.3 billion in 2022 from RMB3.0 billion in 2020, with the tax revenue accounting for 74.1%-88.2% of the total budgetary revenue over the same period. The fiscal self-sufficiency of the Feng County government was relatively weak, and it recorded a budget deficit of -160.6% in 2022. The government fund income, most of which was derived from land use rights transfers, declined from RMB8.0 billion in 2021 to RMB7.3 billion in 2022, owing to weak property market. The transfer payment from higher government reached RMB5.6 billion in 2022, contributing c. 34.6% of aggregate fiscal revenue.

Rating Sensitivities

We would consider downgrading FCIDC's rating if (1) there is perceived weakening in support from the Feng County government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Feng County government's ownership of FCIDC, or (3) there is a downgrade in our internal credit assessment on the Feng County government.

We would consider upgrading FCIDC's rating if (1) there is strengthened support from the Feng County government, or (2) there is an upgrade in our internal credit assessment on the Feng County government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this FCIDC's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

Contact Information

Primary Analyst
Jack Li, CESGA
Analyst
(852) 3462 9585
jack.li@lhratingsglobal.com

Secondary Analyst
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Committee Chairperson
Roy Luo, FRM, CESGA
Associate Director
(852) 3462 9582
roy.luo@lhratingsglobal.com

Business Development Contact

Joyce Chi, CESGA
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.