

Changshan County City Investment Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	21 February 2024

Key Figures of Changshan and CCCI

(RMB billion)	2021	2022
Changshan		
GDP	18.8	20.1
GDP growth rate (%)	9.8	4.1
Budgetary revenue	1.5	1.7
government fund	4.4	3.8
Transfer payment	2.8	2.8
Budgetary expenditure	6.2	6.8
CCCI		
	2022	2023.6
Total Asset	19.8	20.6
Equity	7.1	7.3
Revenue	1.4	0.8

Source: Statistics Bureau of Changshan, Finance Bureau of Changshan, CCCI and Lianhe Global's calculations

Analysts

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

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

Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Changshan County City Investment Group Co., Ltd. (“CCCI” or “the company”) to ‘BBB’ from ‘BBB-’. The Outlook is Stable.

Summary

The Issuer Rating upgrade reflects the increased strategic importance of CCCI in Changshan County, Quzhou City (“Changshan”), as demonstrated in its newly assigned role in talent acquisition and innovation, and construction of resettlement housing, apartment and other related public facilities in the talent community, and strengthened role as the sole entity responsible for infrastructure investment and construction in the region with the development of key initiatives in Changshan, and increasing support from the People’s Government of Changshan County (“Changshan government”).

We believe there is a high possibility that Changshan government would provide very strong support to CCCI if needed, in light of its full ownership of CCCI, CCCI’s strategic position as the sole entity that is responsible for infrastructure construction, land development and resettlement housing construction in Changshan, and the strong linkage between the Changshan government and CCCI, including control and supervision over CCCI’s management, strategic alignment and ongoing operational and financial support. In addition, the Changshan government may face significant negative impact on its reputation, business, and financing activities should CCCI encounter any operational or financial difficulties.

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

Rating Rationale

Strong linkage and Strategic alignment with the Changshan government: CCCI’s linkage with the local government is strong as it is fully owned by the Changshan government through The Finance Bureau of Changshan County’s (“Changshan FB”) wholly-owned subsidiary, Changshan County State-owned Assets Investment and Operation Co., Ltd. The Changshan government, as the ultimate controller, has strong control and supervision over CCCI, including control of the board of directors and the supervisory committee, the appointment of senior managements, and the supervision over its major operating and financing plans. In addition, the government assigns auditors to audit CCCI’s financial and operational data periodically. CCCI’s strategic planning and development have been aligned with the local government’s economic and social policies.

Strategic Importance of CCCI to Changshan: As an important LIDC in the region, CCCI is the sole entity responsible for infrastructures construction in the region, covering municipal projects, public service projects, as well as transportation and water conservancy related projects in Changshan and surrounding areas with strong regional advantages. The company’s infrastructure construction-related business saw further enhancement in 2023, with 20 ongoing infrastructure projects and a total investment of RMB16 billion. The main projects designed by the company are focused on key initiatives in Changshan and Quzhou

City, including canal construction, block development and transformation. These projects are highly aligned with the county government's planning and play a crucial role in the development of Changshan and facilitating communication with surrounding provinces.

Besides, the newly assigned role in talent acquisition, innovation, and talent community sectors of the company experienced a significant improvement. In 2023, the company took charge of constructing the talent community in Changshan, which includes the development of resettlement housing, apartments, and other related infrastructure facilities within the community. CCCI's business operation and development have been aligned with the government's development plans.

Ongoing government Support: CCCI received support from the local government for its business operation, including capital injection, financial subsidies, allocation of land resources or assets, special debt and policy support, and guidance in its daily management, which we expect to continue. As the sole state-owned entity for infrastructure investment, construction and operation in Changshan, CCCI has certain advantages in project and resource acquisition. Meanwhile, the company represented the Changshan government in talent acquisition, innovation, and human resources management, receiving strong support from various government entities. This support includes special subsidies, special debt, and projects related to talent bases. CCCI received a total subsidy amount of RMB173.4 million from 2020 to the first six months of 2023. We believe CCCI is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and related infrastructure investment and construction.

Financial Positions of CCCI: CCCI's total assets increased to RMB20.6 billion at end-June 2023 from RMB16.4 billion at end-2021, due to the increase of inventories, which were mainly development costs related to CCCI's main business. CCCI depended much on debt financing, and the total debts of the company increased to RMB6.6 billion at end-June 2023 from RMB5.3 billion at end-2021. Its financial leverage, as measured by total liabilities/total assets, also increased to 64.8% at end-June 2023 from 57.8% at end-2021. The liquidity of CCCI was sufficient. CCCI had a total cash balance of RMB924.9 million and unused credit line of RMB3.7 billion at end-June 2023, compared with its debt to be due within one year of RMB2.1 billion. Besides, CCCI has access to multiple financing channels including bank borrowings, corporate bonds and other financing channels such as finance lease.

Economy and Fiscal Condition of Changshan: Changshan realized a GDP of RMB20.1 billion in 2022, representing a year-on-year growth of 4.1%. The GDP growth was mainly fueled by the secondary and tertiary industries, which accounted for 45.2% and 50.2% of total GDP in 2022, respectively.

The aggregate fiscal revenue of the Changshan government was mainly derived from the budgetary revenue, government fund income and transfer payment. The Changshan government's budgetary revenue grew rapidly by 10.7% year-over-year to RMB1.7 billion in 2022, with tax revenue accounting for 83.4% of budgetary revenue. However, Changshan's government fund income declined significantly by 14.8% year-over-year to RMB3.8 billion in 2022, owing to the weak property market. The fiscal self-sufficiency rate of the Changshan government was insufficient, thus it continued to receive subsidies from higher governments, and the transfer payment remained stable at RMB2.8 billion in 2022. The total outstanding amount of government debt further increased to RMB10.8 billion at end-2022 from RMB7.2 billion at end-2020, mainly due to the increase in special purpose debts.



Rating Sensitivities

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

We would consider upgrading CCCI's rating there is an upgrade in our internal credit assessment on Changshan government.

Company Profile

CCCI was established in 2021 designated by the Changshan government. After several rounds of capital injections, CCCI's paid-in capital enlarged to RMB2.39 billion at end-June 2023.

CCCI focuses on the infrastructure construction, land development and state-owned asset operation to implement the related instructions of Changshan governments, thus realizing the overall urban upgrading. It also carries out engineering construction, agent construction, commodity sales and other businesses such as public transportation operation, human resources and property leasing.

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 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 upgrade or downgrade 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 credit committee vesting processes. 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 circumstance 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 fee 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 entity nor its related party 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 relies 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 parts, 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.