

# Feng County Industrial Development and Construction Holding Group Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	6 February 2024

Lianhe Ratings Global Limited (“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. (“FCIDC” or “the company”)

### Summary

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.

### Rating Rationale

**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. 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

### Key Figures of Feng County and FCIDC

(RMB billion)	2021	2022
Feng County		
GDP	53.8	54.1
GDP growth rate (%)	9.5	1.0
Budgetary revenue	3.3	3.3
Government fund	8.0	7.3
Transfer payment	4.8	5.6
Budgetary expenditure	8.2	8.7
FCIDC		
Assets	2022	2023.9
Equity	47.8	51.8
Revenue	23.4	24.2
	1.9	1.5

Source: Public information, FCIDC and Lianhe Global’s calculations

### Analysts

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### Applicable Criteria

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

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 Matrix 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 Strength 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.

## Operating Environment

### Economic Condition of Feng County

Feng County is under the jurisdiction of Xuzhou, Jiangsu Province, and located in the northwest part of Xuzhou. Awarded as a National Ecological Demonstration Zone, Feng County is enriched with ecological resources and has more than 36% of forest cover, which

was ranked 1st among all counties in Jiangsu. Feng County has jurisdiction over 12 towns, 3 streets and 1 provincial economic development zone, with a land area of c. 1,450 square kilometers. At end-2021, Feng County had a residential population of 0.9 million, with an urbanization rate of 54.5%.

Feng County's GDP growth rate fluctuated in the past three years due to Covid's disruption, which was 3.1%, 9.5% and 1.0% in 2020, 2021 and 2022, respectively. The GDP amount of Feng County reached RMB54.1 billion in 2022, ranking 8th out of all districts and counties under Xuzhou's jurisdiction. Feng County's economic growth was mainly driven by the secondary and tertiary industries, which accounted for 38.3% and 42.6% of the GDP in 2022, respectively. Feng County's GDP per capita reached c. RMB58,400 in 2022, which was much lower than the GDP per capita of Xuzhou (c. RMB93,700) as well as that of China (c. RMB85,700).

#### Feng County's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	48.7	53.8	54.1
-Primary industry (%)	19.8	18.5	19.1
-Secondary industry (%)	35.9	36.1	38.3
-Tertiary industry (%)	44.3	45.4	42.6
GDP growth rate (%)	3.1	9.5	1.0
Fixed asset investment	33.1	36.0	37.1
Fixed asset investment growth rate (%)	6.1	8.7	3.0
Population (million)	0.9	0.9	0.9

Source: Public information and Lianhe Global's calculations

#### Fiscal Condition of Feng County

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.

The outstanding debt of the Feng County government grew modestly in the past three years, increasing from RMB11.4 billion at end-2020 to RMB13.4 billion at end-2022. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Feng County government stayed relatively stable at around 80% in 2020-2022.

#### Feng County's Fiscal Condition

(RMB billion)	2020	2021	2022
Budgetary revenue	3.0	3.3	3.3
Budgetary revenue growth rate (%)	5.5	10.0	0.7
Tax revenue	2.4	2.9	2.5
Tax revenue (% of budgetary revenue)	80.5	88.2	74.1
Government fund income	5.3	8.0	7.3
Transfer payment	5.0	4.8	5.6
<b>Aggregate revenue</b>	<b>13.4</b>	<b>16.1</b>	<b>16.2</b>
Budgetary expenditure	8.3	8.2	8.7
Budget balance <sup>1</sup> (%)	-175.2	-148.6	-160.6

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

\*Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

FCIDC was established in December 2020 by Feng County High-tech Industrial Park Co., Ltd. with an initial registered capital of RMB100.0 million. In September 2021, the company's sole shareholder changed to Jiangsu Feng County Economic Development Zone Management Committee. In November 2023, the Feng County SASMO became FCIDC's new shareholder, and the company's registered capital increased to RMB3.0 billion. Feng County SASMO was the sole shareholder of the company and Feng County government was the ultimate controller at the end of 2023.

## Strategic Importance and Government Linkage

### Strategic Importance of FCIDC to Feng County

FCIDC, as the key LIDC in Feng County, is primarily responsible for the investment, development and operation of infrastructure projects and shantytowns renovation projects within the city. Serving as the sole entity in charge of infrastructure projects throughout the region, FCIDC is mainly engaged in road construction and upgrading and other infrastructure related projects with strong regional advantages. It is also entrusted with the function of industrial investment and tourism 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.

### Strong Linkage with the Local Government

FCIDC's linkage with the local government is strong as the Feng County government holds the full ownership of FCIDC through Feng County FB. The Feng County government 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 it appoints auditors to supervise the operating performance and financial position on a periodic basis.

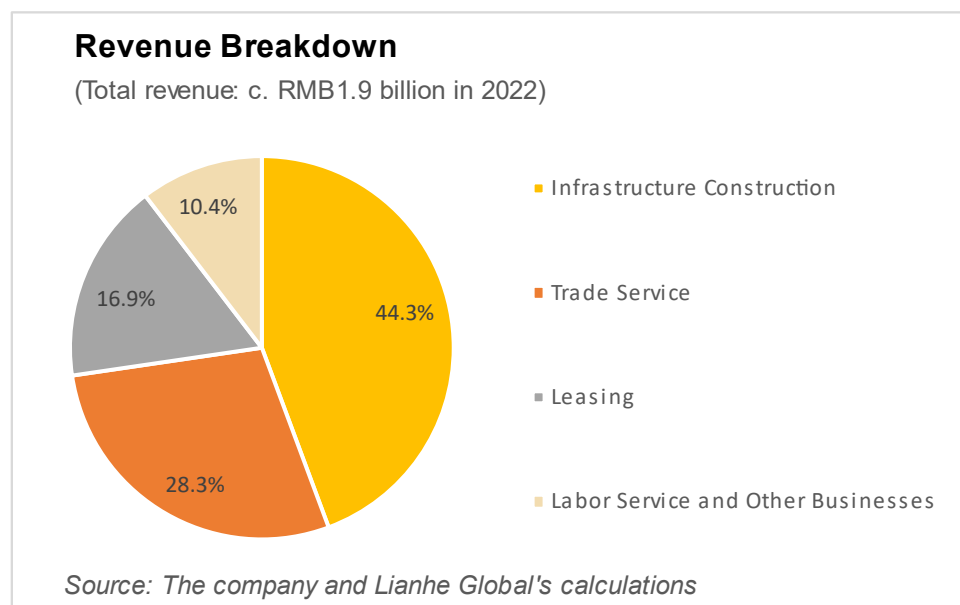
### Government Support

FCIDC received operational and financial support from the Feng County government. The Feng County government continued to inject capital, project-related assets, right of use assets, equities of other companies 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 sole entity for infrastructure construction and shantytown renovation 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.

## Business Profile

## The Important Entity Responsible for Infrastructure Construction in Feng County

FCIDC is an important LIDC that operates infrastructure construction, trade service, leasing and other businesses within Feng County. The primary sources of operating revenue for FCIDC are infrastructure construction, trading and leasing, while it also engaged in labor service and other businesses. The total revenue of FCIDC reached RMB1,749.5 million, RMB1,861.2 million and RMB1,854.1 million in 2020, 2021 and 2022, respectively. The gross profit margin was stable at around 35% over the same period.



### Infrastructure Construction

The infrastructure construction business is undertaken by the company's subsidiary, Feng County Economic Development Zone Investment and Development Co., Ltd. ("FCEDZID") and the company. The projects in this segment are generally conducted in the agent construction mode, where FCEDZID is responsible for the construction of roads, pipeline networks and some other municipal infrastructures within the Feng County Economic Development Zone. After the projects are finished, the payment will be settled based on the actual cost plus a markup of no more than 20%. The income derived from this segment was RMB805.3 million, RMB866.5 million and RMB822.1 million in 2020, 2021 and 2022, respectively.

### Trade Service

The trade service mainly focuses on grain and oil trading business, including grain sales and policy-backed storage. The company collects grain directly from peasants or makes orders, and its marketing network covers mainland China. The income derived from this segment was RMB622.6 million, RMB595.2 million, and RMB525.5 million in 2020, 2021 and 2022, respectively.

### Leasing

The company also leases self-built factories and facades to earn revenues, and this segment is also managed by the subsidiary FCEDZID. The income derived from this segment was RMB146.8 million, RMB213.4 million, and RMB313.8 million in 2020, 2021 and 2022, respectively.

### Labor Service and Other Businesses

Except for the businesses mentioned above, the company also operates labor service and other businesses to supplement its operating revenue, whose revenue accounts for a relatively small part of the company's total revenue.

## Financial Profile

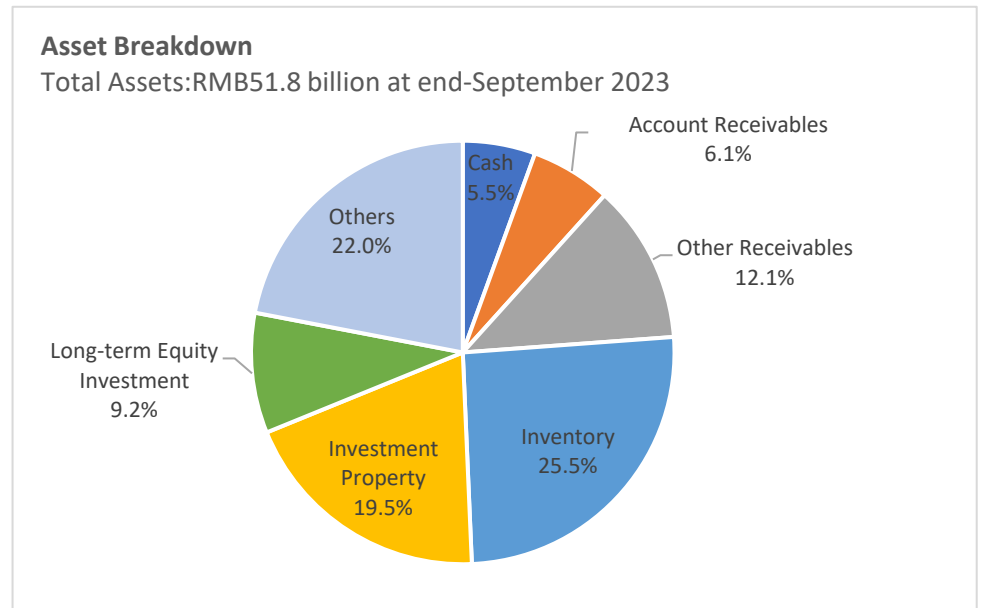
### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>September-2023</b>
Total Asset	31,295	42,101	47,763	51,783
Equity	17,370	19,182	23,388	24,231
Debt	8,066	13,153	14,619	17,270
Debt / (Debt + Equity) (%)	31.7	40.7	38.5	41.6
LT Debt	6,463	11,321	8,583	11,210
LT Debt / (LT Debt + Equity) (%)	27.1	37.1	26.8	31.6

*Source: Company information and Lianhe Global's calculations*

FCIDC's total assets surged to RMB51.8 billion at end-September 2023 from RMB31.3 billion at end-2020, as the government injected a large quantity of capitals and assets into the company in the past few years.

The total debt of the company reached RMB17.3 billion at end-September 2023, more than doubled compared with that at end-2020 (RMB8.1 billion). Both the long-term and short-term debts rose rapidly in the past few years, and the reliance on debt financing of FCIDC increased over the same period, with the total debt ratio measured as total debt/the sum of debt and equity and the long-term debt ratio measured as long-term debt/the sum of long-term debt and equity lifted to 41.6% and 31.6% from 31.7% and 27.1% at end-2020, respectively.



FCIDC's asset quality was relatively weak. By end-September 2023, the company had accumulated sizeable inventories of RMB13.2 billion (mainly construction costs) from its infrastructure construction projects. These inventories usually take a long time to monetize due to protracted construction, recognition and cash collection periods. The company also had long-term equity investment amounting to RMB4.8 billion, which mainly constituted equity transfers from the local government.

### Debt Servicing Capability

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.



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