

Pingtan Comprehensive Pilot Zone City Development Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	23 February 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer and Issuance Credit Rating of Pingtan Comprehensive Pilot Zone City Development Group Co., Ltd. (“Pingtan CDG” or “the company”); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the de facto local government of Pingtan Comprehensive Pilot Zone (“PCPZ”), the Management Committee of PCPZ (“Management Committee”) would provide very strong support to Pingtan CDG if needed, in light of its full ownership of Pingtan CDG, Pingtan CDG’s strengthened strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction and city operation in PCPZ, and the linkage between the local government and Pingtan CDG, including appointment and supervision of the senior management, strategic alignment, major investment and financing decisions and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if Pingtan CDG encounters any operational and financial difficulties.

Lianhe Global has also affirmed ‘BBB’ global scale Long-term Issuance Credit Rating of senior unsecured CNY Green Bonds issued by Pingtan CDG at the same time. A full list of affirmed issuance rating is included in this report.

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

Rating Rationale

Government’s Ownership and Supervision: Management Committee continues to hold 100% stake in Pingtan CDG via the State-owned Assets Administration Bureau of Pingtan Comprehensive Pilot Zone (“PCPZ SAAB”). The local government has strong supervision over the company through PCPZ SAAB, including appointment and supervision of the senior management, decisions on development strategy, financial and investment planning. In addition, PCPZ SAAB has formulated a performance assessment policy for the company, and would regularly appoint auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: Pingtan CDG’s business operations and strategic planning have been aligned with the local government’s economic and social development policies. PCPZ is an important area promoting cross-strait cooperation, while Pingtan CDG is the most important infrastructure construction and city operation entity in PCPZ. The company is responsible for developing and operating an array of projects, such as Pingtan-Taiwan Innovation Park, Taiwan Town and Sports Center. These projects provide spaces for industry, business, living and cultural exchange in Pingtan.

Pingtan CDG’s strategic importance has been strengthened. The company has participated in the development of Pingtan Emerging Industry Park in PCPZ since 2022. This is a large-

Key Figures of PCPZ and Pingtan CDG (RMB billion)

PCPZ	2021	2022
GDP	33.9	36.8
GDP growth rate (%)	5.8	3.6
Budgetary revenue	5.5	2.4
Government fund	2.3	0.4
Transfer payment	3.9	3.5
Budgetary expenditure	8.5	7.0
Pingtan CDG	2022	2023.9
Asset	82.3	83.5
Equity	35.9	35.9
Revenue	0.66	0.75

Source: Public information, Pingtan CDG and Lianhe Global’s calculations

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Applicable Criteria

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

scale industrial park jointly invested by China Energy Engineering Corporation+, a centrally administered SOE, and Pingtan CDG with total planned investment of RMB8 billion. Pingtan CDG has 30% stake in the project company. The company also plans to further involve in PCPZ's tourism industry by developing hotels and tourist attractions within the region.

Ongoing Government Support: The local government continued to provide strong support to Pingtan CDG. In 2023, the local government injected assets (mainly equity of a local SOE) valued at RMB563 million into the company. Pingtan CDG also received operational subsidies amounting to RMB25 million over the same period. We believe the support from the local government will remain intact given the company's strategic role in PCPZ.

Economy and Fiscal Condition of PCPZ: PCPZ is a prefecture-level zone directly under the administration of Fujian Province and equipped with special and favorable supporting policies to promote cross-strait cooperation. PCPZ's GDP growth rate slowed down to 3.6% in 2022, compared with 4.7% of Fujian Province, owing to the impact of COVID. PCPZ recorded a GDP of RMB36.8 billion in 2022, of which 63.2% was contributed by the tertiary sector, such as the financial industry, trading and tourism, etc. PCPZ is also developing its secondary sector by cultivating computer, communication and other electronics manufacturing industry.

PCPZ's budgetary shrunk by 50.7% to RMB2.4 billion in 2022. PCPZ's fiscal self-sufficiency rate was also low, with a high-and-weakening budget deficit, which widened to 197.9% in 2022 from 55.3% in 2021. Nevertheless, as a Comprehensive Pilot Zone with strategic importance to Fujian Province and China, PCPZ receives stable transfer payments from higher-level governments. PCPZ's government fund income dropped dramatically to RMB0.4 billion in 2022 from RMB2.3 billion in 2021, mainly due to the decreased of land use right transfer income amid challenging property market conditions. Its government debt ratio, as measured by total government debt balance/aggregate revenue, surged to a high level of 678.7% in 2022.

Pingtan CDG's Financial and Liquidity Position: Pingtan CDG's total assets increased slightly by 1.4% to RMB83.5 billion at end-September 2023 from RMB82.3 billion at end-2022. Over the same period, the company's total debt rose by 18.8 % to RM13.3 billion from RMB11.2 billion. Its financial leverage, as measured by total debt/capitalization, stayed at a manageable level of 27.1% at end-September 2023.

The liquidity of Pingtan CDG was manageable. At end-September 2023, Pingtan CDG had a cash balance of RMB2.7 billion (including restricted cash of RMB24 million), compared with its debt due within one year of RMB2.4 billion. In addition, Pingtan CDG has access to various financing channels, including bank loans, onshore and offshore bond issuances and non-traditional financings (such as trust loans and financial leasing), to support its debt repayment and business operations. At end-September 2023, the company had unused bank facilities of RMB805 million.

Rating Sensitivities

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

We would consider upgrading Pingtan CDG's rating there is an upgrade in our internal credit assessment on the local government.



Company Profile

Pingtang CDG, formerly known as Pingtang County State-Owned Assets Management Co., Ltd., was established by Pingtang County Bureau of Finance in December 1998, with the registered capital of RMB30 million. At end-September 2023, the company's sole shareholder and ultimate controller was PCPZ SAAB, and its registered capital and paid-in capital had been enlarged to RMB1,640 million.

Pingtang CDG is the most important LIDC in PCPZ that is responsible for infrastructure construction in PCPZ, carrying out major transportation and public facility development projects in the area. The company also provides city operation services, including municipal sanitation and maintenance, as well as leasing and management of the city's commercial complex, apartments, office buildings and industrial parks in PCPZ.

Company Profile

A full list of affirmed Issuance rating is included below. Any rating action on Pingtang CDG's rating would result in a similar rating action on the bonds:

- CNY580 million 5.6% senior unsecured Green Bonds due 2026 affirmed at 'BBB'

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