

# Weihai Nanhai Investment Development 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>	28 February 2024

### Key Figures of Wendeng and WNID

(RMB billion)	2021	2022
Wendeng		
GDP	54.0	50.9
GDP growth rate (%)	6.5	1.5
Budgetary revenue	4.7	4.0
Government fund	15.3	12.6
Transfer payment	2.0	2.7
Budgetary expenditure	5.4	7.5
WNID		
Assets	32.7	32.5
Equity	16.8	16.8
Revenue	1.5	1.1

Source: Public information, WNID and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weihai Nanhai Investment Development Co., Ltd. (“WNID” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Wendeng District, Weihai City (“Wendeng government”) would provide strong support to WNID if needed, in light of the Nanhai New Area Management Committee (“NNA MC”)’s full ownership of WNID, WNID’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset management in the Nanhai New Area, and the linkage between the local government and WNID, 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 local government may face significant negative impact on its reputation and financing activities if WNID encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that WNID’s strategic importance would remain intact while the Wendeng government and NNA MC will continue to ensure WNID’s stable operation.

### Rating Rationale

**Government’s Ownership and Supervision:** NNA MC, as the de facto local government of Nanhai New Area, directly holds the full ownership of WNID. NNA MC, as the actual controller of the company, 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 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 Wendeng District and Nanhai New Area and Strategic Alignment:** WNID, as the key LIDC in Wendeng District (“Wendeng”), is primarily responsible for the investment, development and operation of infrastructure projects and state-owned management in Nanhai New Area. Serving as the key entity in charge of industrial development related infrastructure projects throughout the region, WNID is mainly engaged in industrial park construction and operation, sewage and heating pipeline installation, park road network renovation, upgrading and construction of infrastructure supporting facilities with strong regional advantages. It is also responsible for water supply and cultural tourism development. WNID plays an important role in promoting the economic, industrial and social development of the region. Its business operation and development have been aligned with the government’s development plans.

**Ongoing Government Support:** WNID received operational and financial support from the government. WNID received a total subsidy amount of RMB1.1 billion from 2020 to the first nine months of 2023. The NNA MC continued to inject capital, real estate assets, equities of other companies and other kinds of assets into WNID to expand its asset size and diversify its business. Besides, the NNA MC will provide policy supports to WNID to ensure

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### Applicable Criteria

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

its business operation. Given that it is the key entity for infrastructure construction and state-owned management in Nanhai New Area, WNID has an advantage in acquiring related resources and major projects. We believe WNID is likely going to receive government support to support its daily business operation.

**WNID's Financial Matrix and Liquidity Position:** WNID's total asset increased steadily to RMB32.7 billion at end-2022 from RMB22.7 billion at end-2020, but decreased slightly to RMB32.5 billion at end-September 2023. The non-current assets of WNID accounted for 51.7% of the total assets at end-September 2023, and the overall asset liquidity was moderately weak due to large amount of inventories and receivables. WNID's financial leverage (total liabilities to total assets) was 48.2% and its adjusted debt increased to RMB6.1 billion at end-September 2023 from RMB4.0 billion at end-2021. The liquidity of WNID was moderately weak. At end-September 2023, WNID had a cash balance and unused credit facilities of RMB1.3 billion and RMB575.2 million, respectively, compared with its debt due within one year of RMB2.6 billion. Having said that, WNID has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Wendeng:** Wendeng is a district of Weihai City ("Weihai") of Shandong Province, and is located in the central of Weihai. Nanhai New District is a dispatching organization of Weihai. Since it had no independent treasury, its financial income and expenditure were included in the statistical scope of Wendeng. Wendeng realized a GDP of RMB50.9 billion in 2022, representing a growth rate of 1.5%.

The aggregate fiscal revenue of the Wendeng government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Wendeng government was volatile and dropped by 13.7% to RMB4 billion in 2022. At the same time, the government-managed fund income was volatile and dropped by 18.1% in 2022. The Wendeng government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was high and the outstanding government debt increased to RMB20.3 billion at end-2022.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Wendeng

Wendeng is a district of Weihai of Shandong Province, and is located in the central of Weihai. Wendeng has a total land area of 1,364 square kilometers. Wendeng had a residential population of 0.5 million with an urbanization rate of 57.1% at end-2021.

Wendeng realized a GDP of RMB50.9 billion in 2022, representing a growth rate of 1.5%. Wendeng's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 37.6% and 49.5% of Wendeng's GDP, respectively, in 2022. The fixed

asset investment dropped by 13.7% in 2022. Meanwhile, Wendeng's GDP per capita reached RMB99,000 in 2022.

<b>Wendeng's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	47.5	54.0	50.9
-Primary industry (%)	12.1	11.7	12.9
-Secondary industry (%)	38.8	40.4	37.6
-Tertiary industry (%)	49.1	47.9	49.5
GDP growth rate (%)	3.2	6.5	1.5
Fixed asset investment	21.8	23.8	20.5
Fixed asset investment growth rate (%)	10.2	12.7	-13.7
Population (million)	0.5	0.5	0.5

Source: Public information and Lianhe Global's calculations

## Fiscal Condition of Wendeng

Nanhai New District is a dispatching organization of Weihai. Since it had no independent treasury, its financial income and expenditure were included in the statistical scope of Wendeng. The aggregate fiscal revenue of the Wendeng government was mainly derived from the budgetary revenue and government-managed fund income. The budgetary revenue of the Wendeng government was volatile and dropped by 13.7% to c. RMB4 billion in 2022. The tax revenue accounted for 63-72% of the budgetary revenue in 2020-2022. The government-managed fund income was volatile and dropped by 18.1% in 2022.

The budget deficit of the Wendeng government increased to 84.7% in 2022, due to the decrease in the budgetary revenue and increase in the budgetary expenditure. The debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Wendeng government was high. The local government's outstanding debt increased from c. RMB17 billion at end-2020 to RMB20.3 billion at end-2022, mainly due to the increase in special purpose debt.

<b>Wendeng's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	4.4	4.7	4.0
Budgetary revenue growth rate (%)	-2.0	5.8	-13.7
Tax revenue	3.1	3.4	2.5
Tax revenue (% of budgetary revenue)	70.3	71.7	62.7
Government fund income	14.8	15.3	12.6
Transfer payment	2.7	2.0	2.7
<b>Aggregate revenue</b>	<b>22.0</b>	<b>22.0</b>	<b>19.4</b>
Budgetary expenditure	5.9	5.4	7.5
Budget balance <sup>1</sup> (%)	-32.4	-14.6	-84.7

<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

WNID was established in May 2014 with an initial registered capital of RMB500 million, funded by NNA MC. In December 2020, NNA MC increased the company's registered capital to RMB2 billion.

At end-September 2023, WNID's registered capital paid-in capital were both RMB2 billion. The company had a shareholding structure in which NNA MC, as the controlling shareholder and actual controller of the company, held 100% equity of the company.

## Strategic Importance and Government Linkage

### Strategic Importance of WNID to Wendeng

WNID, as the key LIDC in Wendeng, is primarily responsible for the investment, development and operation of infrastructure projects and state-owned management in Nanhai New Area. Serving as the key entity in charge of industrial development related infrastructure projects throughout the region, WNID is mainly engaged in industrial park construction and operation, sewage and heating pipeline installation, park road network renovation, upgrading and construction of infrastructure supporting facilities with strong regional advantages. It is also responsible for water supply and cultural tourism development. WNID plays an important role in promoting the economic, industrial 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

WNID's linkage with the local government is strong as the NNA MC, as the de facto local government of Nanhai New Area, directly holds the full ownership of WNID. NA MC, as the actual controller of the company, 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 government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

### Government Support

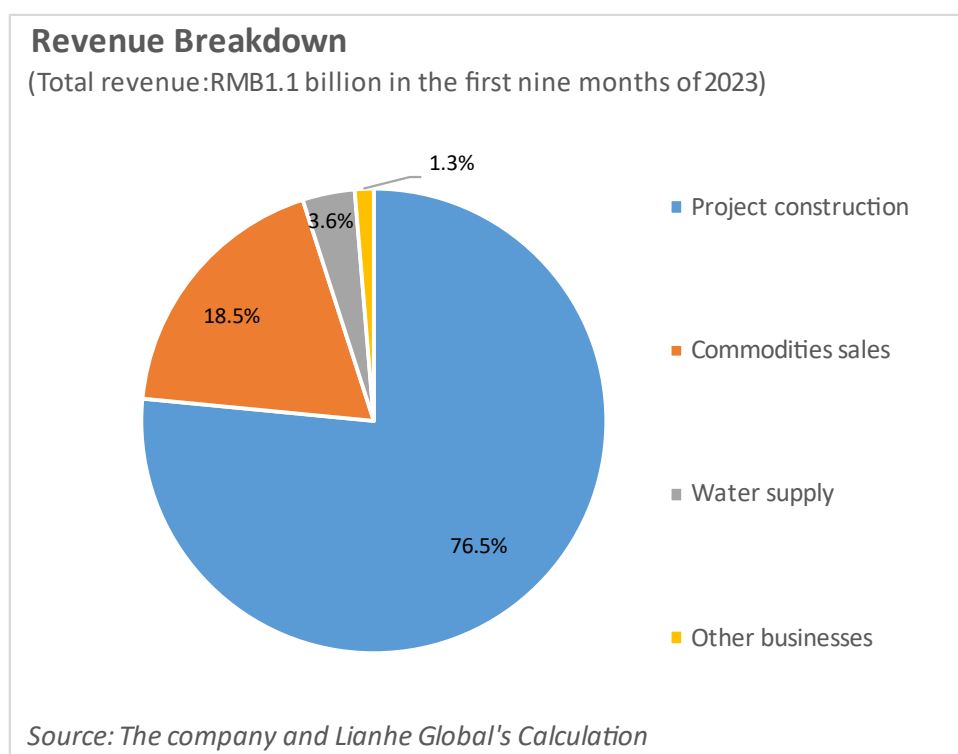
WNID received operational and financial support from the government. WNID received a total subsidy amount of RMB1.1 billion from 2020 to the first nine months of 2023. The NNA MC continued to inject capital, real estate assets, equities of other companies and other kinds of assets into WNID to expand its asset size and diversify its business. Besides, the NNA MC will provide policy supports to WNID to ensure its business operation. Given that it is the key entity for infrastructure construction and state-owned management in Nanhai New Area, WNID has an advantage in acquiring related resources and major projects. We believe WNID is likely going to receive government support to support its daily business operation.

## Business Profile

### The Key Entity Responsible for Infrastructure Construction and State-owned Assets Operation in Nanhai New Area

WNID, as an important LIDC in Nanhai New Area, is mainly responsible for the construction of industrial infrastructure within the region as well as some municipal projects of Weihai, with a strong regional franchise advantage. The primary sources of operating revenue for the company are project construction and commodities sales, while it also engaged in water supply, property sales, hotel operation, leasing, etc. The company's total revenue remained relatively stable in the past few years, recording at RMB1.1 billion, RMB1.4 billion, RMB1.5

billion and RMB1.1 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The overall gross profit margin of WNID was on an upward trend in the past few years, increasing from 11.1% to 16.3% over the same period. Overall, the company's businesses are relatively concentrated and it has regional advantages over its major businesses.



### Project Construction

As the main source of the company's operating revenue, the project construction business is operated under both agent construction and self-operated models. Under the agent construction model, the company signs the agent construction agreements with the NNA MC or local SOEs and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a markup of 20%-25% with the entrusting party according to the project's progress. Under the self-operated model, the company constructs the projects with internal and external funds (some projects are funded by the local government's special debts), and sells or operates them for income upon completion. The revenue of this segment reached RMB159 million, RMB251 million, RMB255 million and RMB166 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment stayed around 15%-16% from 2020 to 2022, but dropped to 8.5% in the first nine months of 2023.

### Commodities Sales

The company's commodities sales business mainly involves the sales of cable and concrete, which are handled separately by two subsidiaries of the company. The commodities sales business is mostly conducted in a "demand-driven" model, where it determines the amount of materials to be procured and products to be produced based on the actual orders placed by customers. The revenue of this segment was relatively volatile in the past few years, recording at RMB775 million, RMB912 million, RMB880 million and RMB687 billion in 2020,

2021, 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment fluctuated between 10.3% to 14.6% over the same period.

### Water Supply

The company's water supply business is mainly handled by one of its subsidiaries, Weihai Nanhai New Area Water Co., Ltd., which is the sole entity responsible for water supply as well as the construction of pipeline networks within the region, with a strong franchise advantage. The revenue generated from this segment remained stable at RMB49 million from 2020 to 2022 and reached RMB33 million in the first nine months of 2023. The gross profit margin of this segment remained negative in the past few years and reached -253.6% in the first nine months of 2023. Considering the non-profit nature of the water supply business, NNA MC gives subsidies to the company annually according to its actual operation performance.

### Other Businesses

Other businesses of WNID mainly include property sales, hotel operation, leasing, etc. They mainly play a supplementary role and have little impact on WNID's financial position and creditworthiness.

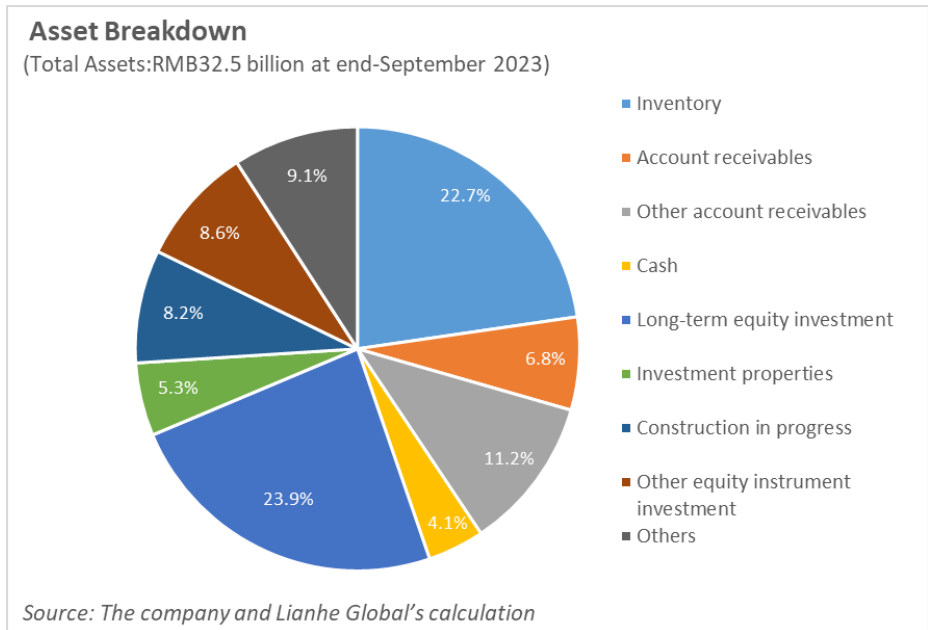
## Financial Profile

### 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	22,699	27,746	32,657	32,487
Equity	11,761	16,248	16,753	16,815
Debt	2,593	3,999	5,849	6,129
Debt / (Debt + Equity) (%)	18.1	19.8	25.9	26.7
LT Debt	1,782	2,276	2,847	3,548
LT Debt / (LT Debt + Equity) (%)	13.2	12.3	14.5	17.4

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

WNID's total asset increased steadily to RMB32.7 billion at end-2022 from RMB22.7 billion at end-2020, but decreased slightly to RMB32.5 billion at end-September 2023. WNID's total debt reached RMB6.1 billion at end-September 2023, more than doubled compared with RMB2.5 billion at end-2020. The company's financial leverage, as measured by debt/capitalization remained relatively stable in the past few years, recording at 48.2% at end-September 2023.



WNID's asset liquidity was relatively weak, as the company's project construction activities had accumulated sizable inventories (mainly lands to be development) and construction in progress, which added up to RMB10.1 billion at end-September 2023, representing 31% of its total asset. These assets usually take a long time to monetize due to the protracted construction and payment collection period. In addition, the company had a large number of account receivables and other account receivables (primarily due from local government agencies, SOEs and private real estate companies), which accounted for 18% of total asset.

### Debt Servicing Capability

The liquidity of WNID was moderately weak. At end-September 2023, WNID had a cash balance and unused credit facilities of RMB1.3 billion and RMB575.2 million, respectively, compared with its debt due within one year of RMB2.6 billion. Having said that, WNID has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

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