

# Ningguo State-owned Capital 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>	12 March 2024

Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Ningguo State-owned Capital Holding Group Co., Ltd. (“NSCHG” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Ningguo City, Xuancheng City (“Ningguo government”) would provide strong support to NSCHG if needed, in light of its indirect full ownership of NSCHG, NSCHG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and resettlement housing construction in Ningguo City, Xuancheng City (“Ningguo”), and the linkage between the Ningguo government and NSCHG, 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 Ningguo government may face significant negative impact on its reputation and financing activities if NSCHG encounters any operational and financial difficulties.

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

### Rating Rationale

**Ningguo Government’s Ownership and Supervision:** The Ningguo government indirectly holds the full ownership of NSCHG through Ningguo Ningyang Holding Group Co. Ltd. (“NNHG”), via the Ningguo State-owned Assets Supervision and Administration Commission (“Ningguo SASAC”), and is the actual controller of the company. The Ningguo 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 Ningguo government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Ningguo and Strategic Alignment:** NSCHG, as the key LIDC in the Ningguo, is primarily responsible for infrastructure construction and resettlement housing construction within the region. It serves as the key entity that undertakes the construction of infrastructure related projects in Ningguo (except Ningguo Economic and Technological Development Zone). In addition, the company is also responsible for the sales of sand and gravel, sewage treatment, urban pipe network construction and other state-owned asset management and operation business within Ningguo. NSCHG 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:** NSCHG received operational and financial support from the government. NSCHG received a total subsidy amount of around RMB1.5 billion from 2020 to the first six months of 2023. The Ningguo government continued to inject intangible assets, such as sand and gravel operation right and parking fee collection right, and other assets into NSCHG to expand its asset size and diversify its business. Besides, the Ningguo

### Key Figures of Ningguo and NSCHG

(RMB billion)	2021	2022
<b>Ningguo</b>		
GDP	43.2	45.4
GDP growth rate (%)	10.7	6.0
Budgetary revenue	3.5	3.7
Government fund	1.6	1.5
Transfer payment	1.1	0.8
Budgetary expenditure	4.5	5.5
<b>NSCHG</b>	<b>2022</b>	<b>2023.6</b>
Assets	33.2	47.5
Equity	14.1	16.6
Revenue	1.8	0.8

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

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### Applicable Criteria

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

government provides policy supports to NSCHG to ensure its business operation. Given it is the key entity for infrastructure construction and resettlement housing construction in Ningguo, NSCHG has an advantage in acquiring land resources and major projects. We believe NSCHG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**NSCHG's Financial Matrix and Liquidity Position:** NSCHG's total assets showed a continuous growth trend in the past years and reached RMB47.5 billion at end-June 2023, mainly due to the increase of intangible assets. The current assets of NSCHG accounted for 62.3% of the total assets at end-June 2023, but the overall assets were less liquid. NSCHG's financial leverage (total liabilities to total assets) was 65.1% and its adjusted debt increased to RMB23.3 billion at end-June 2023. The liquidity of NSCHG was moderate. At end-June 2023, NSCHG had a cash balance of RMB3.6 billion, compared with its debt due within one year of RMB6.5 billion. NSCHG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations. At end-2022, the company had unused credit lines of RMB15 billion.

**Economy and Fiscal Condition of Ningguo:** Ningguo is a county-level city located in the southeast of Xuancheng City, Anhui Province ("Xuancheng"), with a total land area of c. 2,487 square kilometers. Ningguo recorded an economic growth in 2022, achieving a GDP of c. RMB45.4 billion, with a year-on-year growth of 6.0%. Its GDP scale was ranked 2<sup>nd</sup> out of all cities, districts and counties of Xuancheng in 2022. The aggregate fiscal revenue of the Ningguo government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Ningguo government maintained steady growth in the past three years, and reached RMB3.7 billion in 2022, representing an increase of 7.0%. At the same time, the government fund income, which was mainly generated from land sales, stayed stable in the past 3 years. The budget deficit of the Ningguo government was c. -46.5% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Ningguo government was high. The special purpose debt constituted a high proportion of the total debt.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Ningguo

Ningguo is a county-level city of Xuancheng, and is located in the southeast of Xuancheng. Ningguo is a picturesque place with rich natural resources and tourist attractions. Ningguo has jurisdiction over 13 towns and 6 streets, with a total land area of c. 2,487 square kilometers. At end-2022, Ningguo has a population of c. 0.4 million.

Ningguo maintained steady economic growth in the past few years. Its GDP reached c. RMB45.4 billion in 2022, representing a year-on-year growth rate of 6.0%. Ningguo's GDP amount was ranked 2<sup>nd</sup> out of all cities, districts and counties of Xuancheng in 2022. The economic growth of Ningguo was mainly boosted by the secondary and tertiary industries, which accounted for 59.2% and 34.5% of GDP in 2022, respectively. The GDP per capita of Ningguo reached RMB116,932 in 2022, which was higher than the GDP per capita of Xuancheng (RMB76,853) and that of China (RMB85,698).

<b>Ningguo's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	38.5	43.2	45.4
-Primary industry (%)	6.7	6.3	6.3
-Secondary industry (%)	57.9	58.5	59.2
-Tertiary industry (%)	35.4	35.1	34.5
GDP growth rate (%)	5.3	10.7	6.0
Fixed asset investment	54.9	64.3	73.8
Fixed asset investment growth rate (%)	13.2	17.0	14.9
Population (million)	0.4	0.4	0.4

Source: Public information and Lianhe Global's calculations

## Fiscal Condition of Ningguo

The budgetary revenue of the Ningguo government maintained steady growth in the past three years, and reached RMB3.7 billion in 2022, representing an increase of 7.0%. The tax revenue accounted for 67.6%-69.6% of the budgetary revenue in 2020-2022. At the same time, the government fund income, which was mainly generated from sales of state-owned land use right, stayed stable at c. RMB1.5 billion in the past three years. The financial self-sufficiency rate of Ningguo was insufficient and it recorded a budget deficit of -46.5% in 2022.

The outstanding debt of the Ningguo government showed an upward trend in recent years and reached c. RMB9.4 billion at end-2022, which included RMB3.0 billion general obligations and RMB6.4 billion of special purpose debt.

<b>Ningguo's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	3.1	3.5	3.7
Budgetary revenue growth rate (%)	0.3	13.6	7.0*
Tax revenue	2.2	2.4	2.5
Tax revenue (% of budgetary revenue)	69.6	68.7	67.6
Government fund income	1.5	1.6	1.5**
Transfer payment	1.5	1.1	0.8**
<b>Aggregate revenue</b>	<b>6.1</b>	<b>6.2</b>	<b>6.2**</b>
Budgetary expenditure	4.7	4.5	5.5
Budget deficit <sup>1</sup> (%)	-50.2	-28.5	-46.5

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

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

\*\*Estimated by Lianhe Global due to insufficient data

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

NSCHG was established in February 2013 with an initial registered capital of RMB500 million, fully funded by the Ningguo government. At end-June 2023, NSCHG's registered capital was RMB3 billion and the paid-in capital was RMB844 million.

In 2023, the former shareholder of the company, Ningguo SASAC, transferred its full ownership of NSCHG to NNHG without compensation. NNHG is fully owned by Ningguo SASAC. Following the completion of the share transfer, NNHG holds 100% equity of NSCHG.

## Strategic Importance and Government Linkage

### Strategic Importance of NSCHG to Ningguo

NSCHG, as the key LIDC in the Ningguo, is primarily responsible for infrastructure construction and resettlement housing construction within the region. It serves as the key entity that undertakes the construction of infrastructure related projects in Ningguo (except Ningguo Economic and Technological Development Zone). In addition, the company is also responsible for the sales of sand and gravel, sewage treatment, urban pipe network construction and other state-owned asset management and operation business within Ningguo. NSCHG 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

NSCHG's linkage with the local government is strong as the Ningguo government indirectly holds the full ownership of NSCHG through NNHG, via the Ningguo SASAC. The Ningguo 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 Ningguo government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

### Government Support

NSCHG continued to receive financial subsidies, mainly including operating subsidies and tax breaks, from the local government to maintain its business operation. NSCHG received subsidies of c. RMB401.5 million, RMB422.7 million, RMB505.8 million and RMB127.8 million in 2020, 2021, 2022 and the first six months of 2023, respectively. Besides, The Ningguo government continued to inject intangible assets, such as sand and gravel operation right and parking fee collection right, and other assets into NSCHG to expand its asset size and diversify its business. The Ningguo government will repurchase some infrastructure projects and provide policy supports to NSCHG to ensure its business operation. Given it is the key entity for infrastructure construction and resettlement housing construction in Ningguo, NSCHG has an advantage in acquiring land resources and major projects. We believe NSCHG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

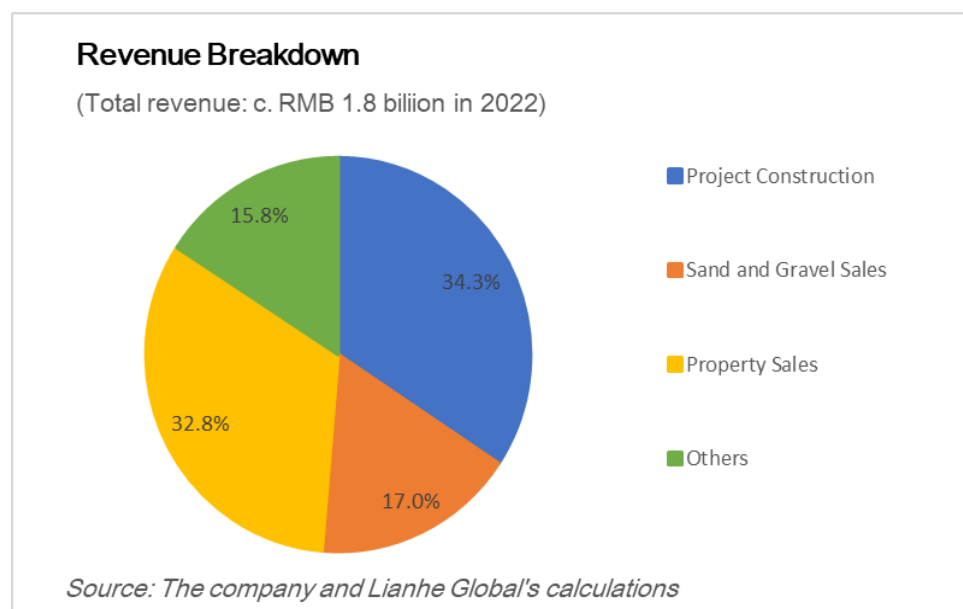
## Business Profile

### The Most Important Platform Responsible for State-owned Assets Operation, and Urban Infrastructure Construction

NSCHG's business is mainly focused on infrastructure construction, operation and management within Ningguo, and it is the most dominant player in this field. All infrastructure projects within Ningguo (except Ningguo Economic and Technological Development Zone)

are undertaken by the NSCHG, and the company has a regional monopoly position in infrastructure construction, operation and management within Ningguo.

The main sources of operating revenue for NSCHG are project construction, sand and gravel sales, property sales and other businesses. The company's total revenue reached RMB884.1 million, RMB1.3 billion, RMB1.8 billion and RMB0.8 billion in 2020, 2021, 2022 and the first six months of 2023, respectively.



### Project Construction

The project construction business is mainly handled by the subsidiary, Ningguo State-owned Assets Investment and Operation Co., Ltd. ("NSAIO"). In accordance with the overall city planning, the Ningguo government specifies the names of construction projects and specific construction requirements to NSAIO. NSAIO raises construction funds and implements project and fund management for each project or individual project following the overall requirements of the government. After completion of the project, NSAIO will hand over the completed and accepted project to the government by the Framework Agreement on Construction Project Cooperation signed with the government, and the government authorizes the Finance Bureau of Ningguo to pay NSAIO the total completion price plus 12% of the construction management fee. NSAIO's project construction income reached RMB405.2 million, RMB435.8 million and RMB620.2 million in 2020, 2021 and 2022, respectively.

### Property Sales

The property sales business is mainly managed by its subsidiary, Ningguo Guoxin Urbanization Construction Co., Ltd. The properties for sale include Yanjin Garden and Yanjin Lakeside, which are ordinary commercial properties and started to generate revenue in 2021, making a contribution to the overall operating income of the company. The company realized income from property sales of RMB306.5 million and RMB593.2 million in 2021 and 2022, respectively.

### Sand and Gravel Sales

Since 2019, NSCHG is the sole government-authorized entity for sand and gravel sales in Ningguo. The government authorizes NSCHG to be responsible for the collection, processing and sale of all sand and gravel resources within the city. All sand and gravel resources, which are generated in the course of construction of river dredging, municipal construction and real estate construction projects within the city, are uniformly handed over to the company for storage and management. At the same time, the company is responsible for ensuring the supply of sand and gravel to the market. The production costs incurred in the sand and gravel operation are mainly divided into raw material costs (including storage costs and transportation costs) and processing costs. The operating income generated is income from the sale of finished sand and gravel products. The company's sand and gravel sales income reached RMB170.7 million, RMB250.6 million and RMB307.5 million in 2020, 2021 and 2022, respectively.

### Other Businesses

In addition to the businesses above, the company also operates other businesses including government-subsidized property sales, security services, financial leasing, livestock slaughter and sewage treatment, making the company's income structure more diversified while forming a better complement to the company's overall income.

## Financial Profile

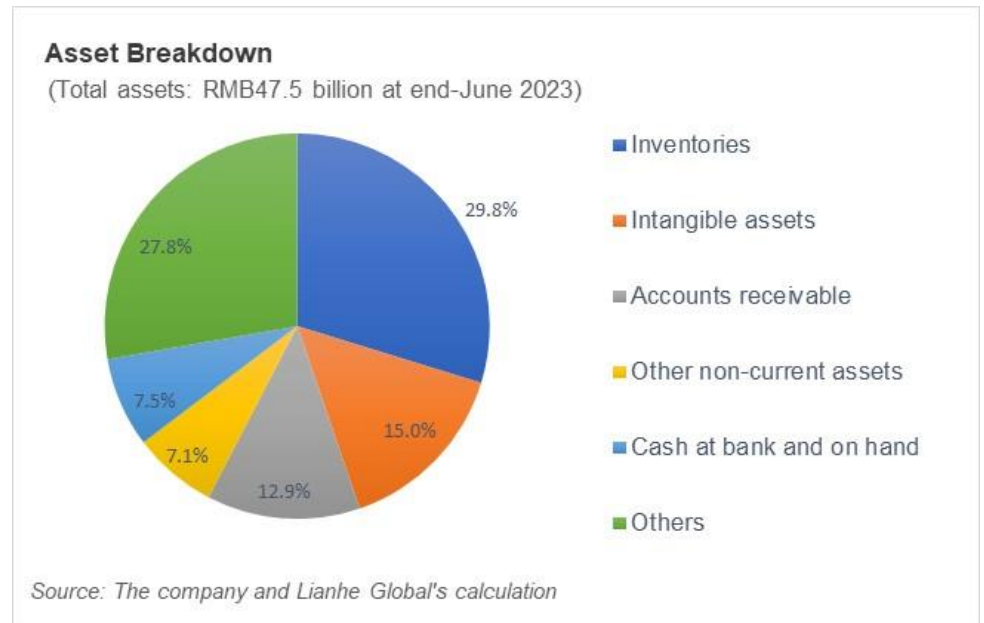
### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023.6</b>
Total Asset	27,776	29,945	33,162	47,485
Equity	11,771	13,902	14,056	16,575
Debt	12,592	14,409	16,100	23,308
Debt / (Debt + Equity) (%)	51.7	50.9	53.4	58.4
LT Debt	9,786	11,818	11,045	16,828
LT Debt / (LT Debt + Equity) (%)	45.4	45.9	44.0	50.4

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

NSCHG's total assets showed a continuous growth in the past few years, with a growth rate of 7.8%, 10.7% and 43.2% at end-2021, end-2022 and end-June 2023, respectively, and reached RMB47.5 billion at end-June 2023. The increase of NSCHG's total assets in 2023 was largely due to its intangible assets. NSCHG's assets mainly consisted of inventories, intangible assets, account receivables, other non-current assets, and cash at bank and on hand. Inventories mainly included land use rights that are acquired through government injection or auction, and project assets relating to shantytown renovation and demolition. Account receivables were mainly project settlement receivables from the Finance Bureau of Ningguo. Meanwhile, other receivables mainly pertained to operational receivables associated with NSCHG's core business activities, such as land development payments and advance payments for projects. The main counterparties for these receivables are the Ningguo government and other LIDCs in the region. NSCHG's account receivables and other receivables had both a high concentration of indebted party, controllable counterparty risk and low bad debt provision. Intangible assets mainly consisted of sand and gravel operation rights, forest land use rights and parking fees collection rights injected from the Ningguo government. Though NSCHG had large proportion of current assets (62.2% at end-

June 2023), its assets were illiquid, primarily due to the significant proportion of costs associated with construction projects and receivables.



NSCHG's financial leverage (total liabilities to assets) reached 57.6%, 53.6% and 57.6% at end-2020, end-2021 and end-2022, respectively, representing a stable trend, but increased to 65.1% at end-June 2023. NSCHG's total adjusted debt increased significantly from RMB12.6 billion at end-2020 to RMB23.3 billion at end-June 2023, with short-term debt accounting for 27.8% of the total debt. NSCHG mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its infrastructure related projects under construction and to be constructed in the future.

### Debt Servicing Capability

The liquidity of NSCHG was moderate. At end-June 2023, NSCHG had a cash balance of RMB3.6 billion, compared with its debt due within one year of RMB6.5 billion. NSCHG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations. At end-2022, the company had unused credit lines of RMB15 billion.

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