

Boxing County Finance Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	11 April 2024

Key Figures of Boxing and BFIG (RMB billion)

	2022	2023
Boxing		
GDP	45.7	48.10
GDP growth rate (%)	3.7	4.5
Budgetary revenue	3.5	3.9
Government fund	2.6	3.1
Transfer payment	1.7	2.4
Budgetary expenditure	4.8	5.8
BFIG	2022	2023.9
Asset	15.7	28.3
Equity	9.2	19.6
Revenue	0.95	0.90

Source: Public information, BFIG 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 Boxing County Finance Investment Group Co., Ltd. (“BFIG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Boxing County (“the Boxing government”) would provide strong support to BFIG if needed, in light of its full ownership of BFIG, BFIG’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for project development, industrial investment and city operation in Boxing County, Binzhou City (“Boxing”), and the linkage between the Boxing government and BFIG, 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 Boxing government may face significant negative impact on its reputation and financing activities if BFIG encounters any operational and financial difficulties.

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

Rating Rationale

Boxing Government’s Ownership and Supervision: Boxing County Investment and Financing Service Center (“Service Center”), as the sole shareholder and ultimate controller of the company holds the full ownership of BFIG. The Boxing government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Boxing government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Boxing and Strategic Alignment: BFIG, as an important LIDC in Boxing, is primarily responsible for project development, industrial investment and city operation within the region. The company develops and operates infrastructure and public facilities, including convention and exhibition center, heat supply network, parking lots. It also invests in local chemical products producer to promote industrial development of Boxing. BFIG 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.

Government Support: BFIG receives ongoing operational support and fiscal subsidies from the Boxing government. In addition, the Boxing government initiated a large-scale asset injection into BFIG in 2023. Injected assets included reservoirs, pipe network and franchise rights, which strongly enhance BFIG’s equity base and are expected to generate stable rental income for BFIG in the coming years. Given the strategic of BFIG, we believe it is likely going to receive government support in various forms in the future.

Economy and Fiscal Strength of Boxing: As one of China’s Top 100 Counties in terms of comprehensive strength, Boxing recorded a GDP of RMB48.1 billion in 2023, which was ranked third among nine districts and counties of Shandong’s Binzhou City (“Binzhou”). Its

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Applicable Criteria

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

economic development focused on oil and food processing, sheet metal, commercial kitchenware and petrochemicals in recent years. However, Boxing's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 9.5%, 3.7% and 4.5% in 2021, 2022 and 2023, respectively.

The budgetary revenue of the Boxing government maintained a steady growth in the past few years, increasing to RMB4.9 billion in 2023 from RMB3.4 billion in 2021. The Boxing's government fund income, mainly generated by land use right transfer income, rebounded to RMB3.1 billion in 2023 from RMB2.6 billion in 2020, representing a year-on-year growth rate of 19.5%. The outstanding debt of the Boxing government continued to grow, as the Boxing government borrowed heavily in special debts to support its public projects. At end-2023, the Boxing government's outstanding debt was RMB13.5 billion, up from RMB9.9 billion at end-2021.

BFIG's Financial Matrix and Liquidity Position: BFIG's almost doubled its total asset RMB28.3 billion at end-September 2023 from RMB15.7 billion at end-2022, as the company received substantial asset allocation from the local government. Although the company's total debt increased to RMB2.3 billion at end-September 2023 from RMB1.5 billion at end-2020, its financial leverage, as measured by debt/capitalization, remained at a relative low level of 10.5% at end-September 2023.

The short-term debt servicing pressure of BFIG is manageable. At end-September 2023, the company had cash balance of RMB637 million (including restricted cash of RMB80 million), while it had short-term debt of RMB823 million. We expect BFIG to roll over most of its short-term bank borrowings (end-September 2023: RMB674 million). In addition, the company had unused bank facilities of RMB50.4 million at end-September 2023.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Boxing

Boxing is a county under the jurisdiction of Binzhou, and located in the southeastern part of the city. Boxing, as hometown of Lüju opera (a form of Chinese opera), is a time-honored county with abundant tourism resources and cultural sites. Boxing has jurisdiction over 9 towns, 3 streets and one provincial economic development zone, with a land area of 900 square kilometers. At end-2022, Boxing had a residential population of c. 0.5 million, with an urbanization rate of 65.3%.

Boxing's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 9.5%, 3.7% and 4.5% in 2021, 2022 and 2023, respectively. As one of China's Top 100 Counties in terms of comprehensive strength, Boxing recorded a GDP of RMB48.1 billion in 2023, which was ranked third among nine districts and counties of Binzhou. Boxing's economic growth was mainly fueled by the secondary and tertiary industries, which

accounted for 42.1% and 50.3% in 2023, respectively. Its economic development focused on oil and food processing, sheet metal, commercial kitchenware and petrochemicals in recent years. GDP per capita of Boxing was c. RMB95,000 in 2023, which was higher than the GDP per capita of Binzhou (c. RMB79,900) as well as that of Shandong Province (c. RMB91,000).

Boxing's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	44.2	45.7	48.1
-Primary industry (%)	7.2	7.8	7.6
-Secondary industry (%)	41.9	41.9	42.1
-Tertiary industry (%)	51.0	50.4	50.3
GDP growth rate (%)	9.5	3.7	4.5
Fixed asset investment growth rate (%)	16.3	10.1	6.8
Population (million)	0.5	0.5	0.5

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Boxing

The Boxing government's aggregate fiscal revenues are mainly derived from budgetary income and government fund income. The budgetary revenue of the Boxing government maintained a steady growth in the past few years, increasing to RMB4.9 billion in 2023 from RMB3.4 billion in 2021. However, the contribution of the tax revenue decreased to 67.9% in 2023 from 72.8% in 2021, mainly due to tax-advantaged policies. In addition, budget balance of the Boxing government was slightly weakening, recording budget deficit of 43.7%, 38.9% and 47.6% in 2021, 2022 and 2023, respectively. The Boxing's government fund income, mainly generated by land use right transfer income, rebounded to RMB3.1 billion in 2023 from RMB2.6 billion in 2020, representing a year-on-year growth rate of 19.5%.

The outstanding debt of the Boxing government continued to grow, as the Boxing government borrowed heavily in special debts to support its public projects. At end-2023, the Boxing government's outstanding debt was RMB13.5 billion, including RMB1.7 billion of general obligations and RMB11.7 billion of special debt, up from RMB9.9 billion at end-2021.

Boxing's Fiscal Condition			
(RMB billion)	2021	2022	2023
Budgetary revenue	3.4	3.5	3.9
Budgetary revenue growth rate (%)	8.5	11.5*	12.0
Tax revenue	2.5	2.1	2.6
Tax revenue (% of budgetary revenue)	72.8	61.6	67.9
Government fund income	3.3	2.6	3.1
Transfer payment	1.4	1.7	2.4
Aggregate revenue	8.2	8.6	11.0
Budgetary expenditure	4.9	4.8	5.8
Budget balance ¹ (%)	-43.7	-38.8	-47.6

¹ 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

BFIG was established in January 2017, with a registered capital of RMB0.5 billion. After a series of capital injections and equity transfers, BFIG's registered capital reached RMB3.0

billion at end-2023. Service Center, as the sole shareholder and ultimate controller of the company, held 100% shares of the company.

Strategic Importance and Government Linkage

Strategic Importance of BFIG to Boxing

BFIG, as an important LIDC in Boxing, is primarily responsible for project development, industrial investment and city operation within the region. The company develops and operates infrastructure and public facilities, including convention and exhibition center, heat supply network, parking lots. It also invests in local chemical products producer to promote industrial development of Boxing. BFIG 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

BFIG's linkage with the local government is strong as the Boxing government holds the full ownership of BFIG through Service Center. The Boxing government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Boxing government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

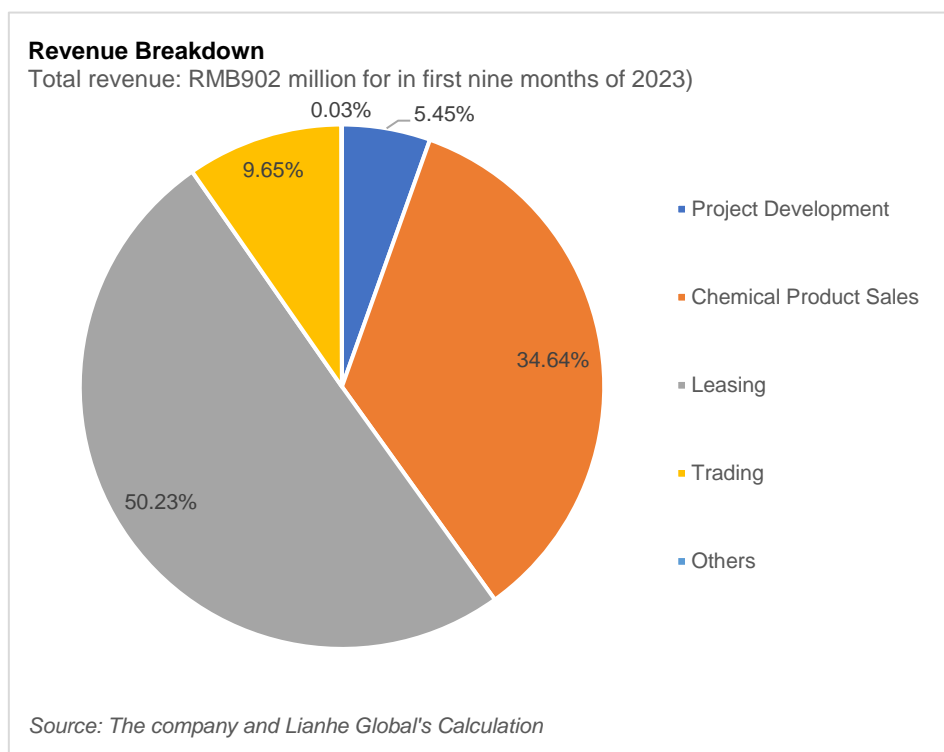
Ongoing Government Support

BFIG receives ongoing operational support and fiscal subsidies from the Boxing government. In addition, the Boxing government initiated a large-scale asset injection into BFIG in 2023. Injected assets included reservoirs, pipe network and franchise rights, which strongly enhance BFIG's equity base and are expected to generate stable rental income for BFIG in the coming years. Given the strategic of BFIG, we believe it is likely going to receive government support in various forms in the future.

Business Profile

An Important LIDC Responsible for Project Development and City Operation in Boxing

BFIG, as an important LIDC in Boxing, is mainly responsible for project development, industrial investment and city operation in Boxing, with a strong regional franchise advantage. The primary sources of operating revenue for the company are chemical product sales and leasing. The company realized total revenue of RMB989 million, 1,077 million, 953 million and 902 million in 2020, 2021, 2022 and the first nine months of 2023, respectively.



Project Development

BFIG owns an array of general contractor qualifications for construction of buildings and public facilities. The company is currently participating in the development of a rural revitalization and heat supply projects in Boxing. In addition to act as a contractor, BFIG also develops self-management projects such as convention and exhibition center, residential properties, cold-chain logistics, heat supply network, parking lots, etc. The company aims to obtain operational revenue from these projects upon completion.

BFIG has a strong project pipeline. By end-September 2023, the company had six projects under construction with total planned investment totaling RMB3.0 billion, of which RMB1.9 billion was scheduled to be invested in the coming years. At the same time, the company also had eight proposed projects with total planned investments amounting to RMB10.6 billion. These projects support the segment's development in the coming years, but they also bring a high capital expenditure pressure on BFIG.

Chemical Product Sales

BFIG owns 49% shares, and is the largest shareholder of Shandong Paini New Material Co., Ltd. ("Shandong Paini"), a chemical products producer. Shandong Paini produces and sells chemical products, generating revenue of RMB315 million, 504 million, 313 million in 2021, 2022 and the first nine months of 2023, respectively. The gross margin increased to 22.4% from 11.1% over the same period.

Leasing and Trading

BFIG earns stable rental incomes by leasing reservoirs, pipe network and lands injected by the local government. The company also engages in the trading of metal products and

textiles. The trading segment contributed significantly to the company' total revenue. However, its gross margin was rather low between 2021 and 2022 (around 2.5%).

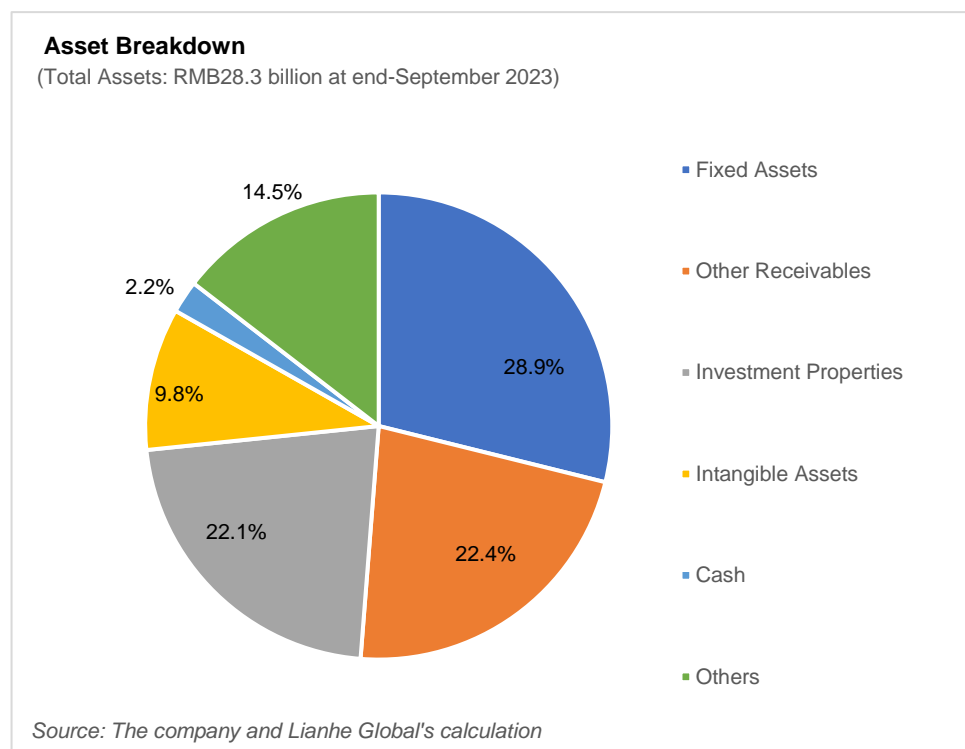
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September-2023
Total Asset	12,678	14,056	15,747	28,333
Equity	6,054	7,977	9,169	19,608
Debt	1,546	1,724	1,623	2,298
Debt / (Debt + Equity) (%)	20.3	17.8	15.0	10.5
LT Debt	856	1,062	929	1,475
LT Debt / (LT Debt + Equity) (%)	12.4	11.7	9.2	7.0

Source: Company information and Lianhe Global's calculations

BFIG's almost doubled its total asset RMB28.3 billion at end-September 2023 from RMB15.7 billion at end-2022, as the company received substantial asset allocation from the local government. Although the company's total debt increased to RMB2.3 billion at end-September 2023, from RMB1.5 billion at end-2020, its company financial leverage, as measured by debt/capitalization, remained at a relative low level of 10.5% at end-September 2023.



BFIG's asset liquidity was relatively weak. At end-September 2023, the company has a large amount of fixed assets and intangible assets mainly injected by the local government, together accounting for 51.0% of the company's total assets. The former mainly consists of reservoirs and pipe network and the latter are franchise rights. In addition, BFIG had other receivables of RMB6.3 billion, mainly due from government departments and other SOEs or



LIDCs in Boxing. The aging of these receivables had been as long as four to five years, and the repayment schedules are highly subject to the fiscal conditions of the local government.

Debt Servicing Capability

The short-term debt servicing pressure of BFIG is moderate. At end-September 2023, the company had cash balance of RMB637 million (including restricted cash of RMB80 million), while it had short-term debt of RMB823 million. We expect BFIG to roll over most of its short-term bank borrowings (end-September 2023: RMB674 million). In addition, the company had unused bank facilities of RMB50.4 million at end-September 2023.

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