

Heze City Investment Holdings Group Co., Ltd.

Surveillance Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer and Issuance Credit Rating of Heze City Investment Holdings Group Co., Ltd. (“HZCI” or “the company”); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the Heze Municipal People’s Government (“the Heze government”) would provide strong support to HZCI if needed, in light of its full ownership of HZCI, HZCI’s strategic importance as a major local investment and development company (“LIDC”) responsible for project development in Heze and the linkage between the Heze government and HZCI, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Heze government may face significant negative impact on its reputation and financing activities if HZCI encounters any operational and financial difficulties.

Lianhe Global has also affirmed ‘BBB’ global scale Long-term Issuance Credit Rating of the senior unsecured USD Notes (“the Notes”) issued by Heze City Investment Holdings International Co., Limited, an indirect wholly-owned subsidiary of HZCI. The Notes are unconditionally and irrevocably guaranteed by HZCI. A full list of affirmed issuance rating is included in this report.

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

Rating Rationale

Heze Government’s Full Ownership: The Heze government holds 100% shares of HZCI through Finance Bureau of Heze. The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and irregularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: HZCI is a major investment and development entity in Heze. Its strategic development plan has been aligned with the local government’s economic and social policies.

The company has participated in the development of Wanfu New District since 2017, a key project aiming to expand urban space and promote the integrated development of Heze and Dingtao, a district under Heze’s administration. HZCI is also constructing industrial parks to support Heze’s economic and industrial development. In addition, the company is responsible for providing public services, such as public transportation, in Heze.

Key Figures of Heze and HZCI (RMB billion)

Heze	2022	2023
GDP	420.5	446.4
GDP growth rate (%)	4.2	4.8
Budgetary revenue	30.0	31.7
Government fund	40.6	35.0
Transfer payment	40.8	42.1
Budgetary expenditure	69.2	73.5
HZCI	2022	2023.9
Asset	36.0	37.7
Equity	15.8	16.0
Revenue	2.61	1.87

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

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Applicable Criteria

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

Ongoing Government Support: In the past three years, the Heze government provided substantial project funds to support HZCI's project construction activities. The company also received ongoing operational subsidies from the local government in relation to providing public services. We expect HZCI to receive ongoing support from the local government in the coming years considering its strategic importance in Heze.

Economic and Fiscal conditions of Heze: Heze's GDP growth rate accelerated to 6.8% in 2023 from 4.2% in 2022. Yet Heze's absolute amount of GDP (RMB446.4 billion) was still relatively low, which was ranked 8th in Shandong in 2023 (out of the 16 prefecture-level cities).

The Heze government's budgetary revenue increased to RMB31.7 billion in 2023 from RMB29.0 billion in 2022. However, the fiscal self-sufficiency rate of the Heze government was weak and continued deteriorating, with its budget deficit widening from 125.9% in 2022 to 132.1% in 2023.

The outstanding debt of the Heze government continued to grow as Heze government borrowed heavily in special debts to support its public projects. At end-2023, the Heze government's outstanding debt was c. RMB150.1 billion, and its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was elevated from 123.7% at end-2022 to 136.4% at end-2023.

HZCI's Financial and Liquidity Positions: HZCI's total assets increased slightly to RMB37,737 million at end-September 2023 from RMB36,039 million at end-2022. The rise in the size of HZCI's assets was mainly attributed to the company's involvement in project construction. The reliance on debt financing of HZCI was heavier. Its total debt increased to RMB19,203 million at end-September 2023, compared with RMB17,265 million at end-2022. The leverage ratio measured as total debt/the sum of debt and equity was up to 54.6% from 52.1%.

HZCI's liquidity remained tight. At end-September 2023, HZCI had cash of RMB3,031 million, compared with its debts due within one year of RMB6,830 million. Yet HZCI has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities amounting to RMB3,973 million.

Rating Sensitivities

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

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



Company Profile

HZCI was established in 2009 with initial registered capital of RMB40 million. After an array of capital injections and equity transfers, the company's registered and paid-in capital both enlarged to RMB1 billion, and its shares were 100% held by Finance Bureau of Heze at end-September 2023.

HZCI is a major investment and development entity in Heze. The company undertakes a series of urban and industrial development projects in Heze, including schools, industrial parks and a financial center. HZCI also operates Heze's public bus services and participates in property development, leasing, as well as sales and distribution of goods activities.

Full List of Issuance Rating

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

- USD132.28 million 8.0% senior unsecured Notes due 2026 affirmed at 'BBB'

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