

Weihai Wendeng District Bluesea Investment and Development Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer and Issuance Credit Rating of Weihai Wendeng District Bluesea Investment and Development Co., Ltd. (“WWBID” or “the company”); Issuer Rating Outlook Stable

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 WWBID if needed, in light of its ownership of WWBID, WWBID’s strategic importance as the major local investment and development company (“LIDC”) that is responsible for infrastructure construction and affordable housing construction in Wendeng District, Weihai City (“Wendeng”), and the linkage between the Wendeng government and WWBID, 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 Wendeng government may face significant negative impact on its reputation and financing activities if WWBID encounters any operational and financial difficulties.

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

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

Rating Rationale

Government’s Ownership and Supervision: The Wendeng government holds the majority ownership of WWBID through the Weihai Wendeng District State-owned Assets Service Center (“Wendeng SASC”), and is the ultimate shareholder of the company. The Wendeng 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 Wendeng government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: WWBID is an important LIDC in Wendeng that is primarily responsible for the infrastructure construction and affordable housing construction within the region with strong regional advantages. The company has been tasked to implement government policies relating to shanty town reconstruction and urban districts construction and has undertaken a number of key project construction projects within Wendeng. As the key entity for infrastructure and affordable housing construction in Wendeng, WWBID 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.

Key Figures of Wendeng and WWBID (RMB billion)

	2022	2023
Wendeng		
GDP	50.9	54.0
GDP growth rate (%)	1.5	6.5
Budgetary revenue	4.0	4.1
Government fund	12.6	2.9
Transfer payment	2.7	2.8
Budgetary expenditure	7.5	7.7
WWBID	2022	2023.9
Assets	54.5	53.2
Equity	30.4	30.4
Revenue	3.0	2.6

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

Analysts

Jack Li, CESGA
 Analyst
 (852) 3462 9585
jack.li@lhratingsglobal.com

Toni Ho, CFA, FRM
 Director
 (852) 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

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

Ongoing Government Support: WWBID received operational and financial support from the government, amounting to RMB1.7 billion and RMB1.3 billion in 2022 and the first nine months of 2023. The Wendeng government, through the Wendeng SASC, continued to inject cash and other assets into WWBID to expand its asset size and enhance its financial strength. The Wendeng government will repurchase some infrastructure and affordable housing construction projects and provide policy supports to WWBID to ensure its business operation. Given the regional advantage in infrastructure and affordable housing construction in Wendeng, WWBID has advantages to obtain land resources and major projects. We believe WWBID is likely going to receive government support in the form of operational and financial subsidies to support its daily business operation.

Economy and Fiscal Condition of Wendeng: Wendeng is a district of Weihai City of Shandong Province, and is located in the central of Weihai. Wendeng realized a GDP of RMB54.0 billion in 2023, representing a year-over-year growth rate of 6.5%, up from 1.5% recorded in 2022. Wendeng's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 40.4% and 47.9% of Wendeng's GDP, respectively, in 2023.

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 increased by 2.4% year-over-year to RMB4.1 billion in 2023, with the tax revenue accounting for 60.5% of the budgetary revenue. The government-managed fund income shrunk dramatically by 77.2% year-over-year to RMB2.9 billion in 2023, mainly due to the decreased of land use right transfer income amid challenging property market conditions.

The budget deficit of the Wendeng government slightly widened to 85.4% in 2023, mainly due to the 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 RMB20.3 billion at end-2022 to RMB23.5 billion at end-2023, mainly due to the increase in special purpose debt.

WWBID's Financial Matrix and Liquidity Position: WWBID's total assets had been on a downward trend since 2022, decreasing to RMB53.2 billion at end-September 2023 from RMB54.5 billion at end-2022. The decrease of total assets was largely due to its inventories, which had dropped since 2022 due to completion and settlement of company's infrastructure and affordable housing construction projects. At end-September 2023, current assets accounted for 58.0% of its total assets. WWBID's financial leverage (total liabilities to assets) remained stable in the past few years and reached 43.0% at end-September 2023. In view of the relevant guidelines of the Wendeng government, we expect the financial leverage of WWBID to continue to stabilize at this level. WWBID's adjusted total debt decreased slightly from RMB21.9 billion at end-2021 to RMB18.9 billion at end-September 2023, with short-term debt accounting for 25.2% of the total debt.

The liquidity of WWBID was tight. At end-September 2023, WWBID had a cash balance and unused credit facilities of RMB1.6 billion and RMB1.5 billion, respectively, but a high proportion of cash of RMB1.5 billion was restricted, compared with its debt due within one year of RMB4.8 billion at the same time. Having said that, WWBID has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Rating Sensitivities

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

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

Company Profile

WWBID was established in April 2012 with an initial registered capital of RMB100 million. At end-September 2023, WWBID's registered and paid-in capital was both RMB500 million. Wendeng SASC held 82% of the company's shares, while the remaining 18% was held by Weihai Finance Investment Holding Group Co. Ltd., a fully-owned subsidiary of the Finance Bureau of Weihai City, as of end-September 2023.

WWBID is mainly responsible for infrastructure and affordable housing construction, as well as the leasing of pipeline and sea area use right in Wendeng. It undertakes important infrastructure construction projects, shanty town reconstruction and urban districts construction under the instruction of the Wendeng government.

Full List of Issuance Rating

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

- USD98 million 8.5% senior unsecured Bonds due 2024 affirmed at 'BBB-'

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