

Feicheng City Asset Management Group Co., Ltd. Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer Credit Rating of Feicheng City Asset Management Group Co., Ltd. (“FCAMG” or “the company”); Issuer Rating Outlook is Stable

Summary

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

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

Rating Rationale

Feicheng Government’s Ownership and Supervision: The Feicheng government indirectly holds the full 100% ownership of FCAMG via the State-owned Assets Operation Centre of Feicheng (“Feicheng SAOC”) and Feicheng City Urban Assets Holding Group Co., Ltd. (“FCUA”), a newly-established LIDC. The Feicheng government is the actual and ultimate controller of the company. The Feicheng 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 Feicheng 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 Feicheng and Strategic Alignment: FCAMG is an important LIDC that is responsible for responsible for major infrastructure construction and water operation in Feicheng. It is the only LIDC in the region to carry out water related business. It is also engaged in trading business, pipe network leasing, quarantine testing, public transport operation and property services. FCAMG plays an important role in supporting the sustainability and development of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: FCAMG continued to receive financial subsidies and asset/capital injections from the Feicheng government to support its business operations. Between 2020 and 2023, FCAMG received financial subsidies of totally about RMB1.1 billion from the local government. Meanwhile, FCAMG received capital and asset injections in the form of cash, buildings and other assets about RMB479.2 million. We expect FCAMG to

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	13 June 2024

Key Figures of Feicheng and FCAMG (RMB billion)

	2022	2023
Feicheng		
GDP	82.7	87.3
GDP growth rate (%)	5.3	6.7
Budgetary revenue	4.7	5.1
Government fund	1.6	1.3
Transfer payment	2.3	2.8
Budgetary expenditure	6.9	7.1
FCAMG		
Asset	19.2	18.8
Equity	12.8	12.1
Revenue	1.3	1.1

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

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Applicable Criteria

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

receive ongoing support from the Feicheng government in the coming years considering its strategic importance in Feicheng.

Economy and Fiscal Condition of Feicheng: Feicheng maintained steady economic growth in the recent three years. Its GDP reached RMB87.3 billion in 2023, representing a year-on-year growth rate of 6.7%, up from 5.3% recorded in 2022. Feicheng's GDP amount was ranked 1st out of all cities, districts and counties of Taian in 2023. The economic growth of Feicheng was mainly boosted by the secondary and tertiary industries, which accounted for 52.0% and 40.1% of GDP in 2023, respectively. The fixed asset investment continued to expand, but its growth rate was lowered to 8.6% in 2023 from 21.9% in 2022.

The aggregate fiscal revenue of the Feicheng government was mainly derived from the budgetary revenue and transfer payment. The budgetary revenue of the Feicheng government increased to RMB5.1 billion in 2023 from RMB4.7 billion in 2022, with the contribution of tax revenue elevated to 88.0% from 81.8% over the same period. The financial self-sufficiency rate of Feicheng was insufficient and it recorded a budget deficit of 39.3% in 2023. Feicheng's government fund income was further reduced by 19.7% year-on-year to RMB1.3 billion in 2023 amid property market downturn, while transfer payment from higher government increased by 23.2% year-on-year to RMB2.8 billion in 2023. The debt ratio, as measured by the total government debt/aggregate revenue surged to 112.6% at end 2023 from 88.1% at end-2022, mainly due to the large increase in special debt.

FCAMG's Financial and Liquidity Position: FCAMG's total assets decreased slightly to RMB18.8 billion at end-2023 from RMB19.2 billion at end-2022, mainly due to the decrease in fixed asset, construction in progress and other equity investment. FCAMG's assets mainly consisted of inventories, other receivables, other non-current assets and account receivables. Though FCAMG had large proportion of current assets (83.8% at end-2023), its assets were illiquid, primarily due to the significant proportion of land reserves, costs associated with construction projects and receivables. FCAMG's total debt increased from RMB4.5 billion at end-2022 to RMB5.0 billion at end-2023, with the proportion of short-term debt increased to 43.2% from 33.5% over the same period, indicating an increased short-term debt repayment pressure. The company's financial leverage, as measured by debt/capitalization, was elevated to 29.2% at end-2023 from 26.1% at end-2022.

FCAMG's liquidity was tight. At end-2023, FCAMG had unrestricted cash balance of RMB374.1 million, compared with its debt to be due within one year of RMB2.2 billion. However, FCAMG has access to various channels of financing, including bank loans, bonds issuance and non-traditional financing channels, to support its debt repayments and business operations. At end-2023, the company had an available offshore bond issuance quota of RMB1.1 billion and unused credit facilities of RMB683.6 million.

Rating Sensitivities

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

We would consider upgrading FCAMG's rating if there is an upgrade in our internal credit assessment on the Feicheng government.

Company Profile

FCAMG was established with the approval of the Feicheng government in January 2003, with an initial registered capital of RMB100 million. After an array of capital injections, at

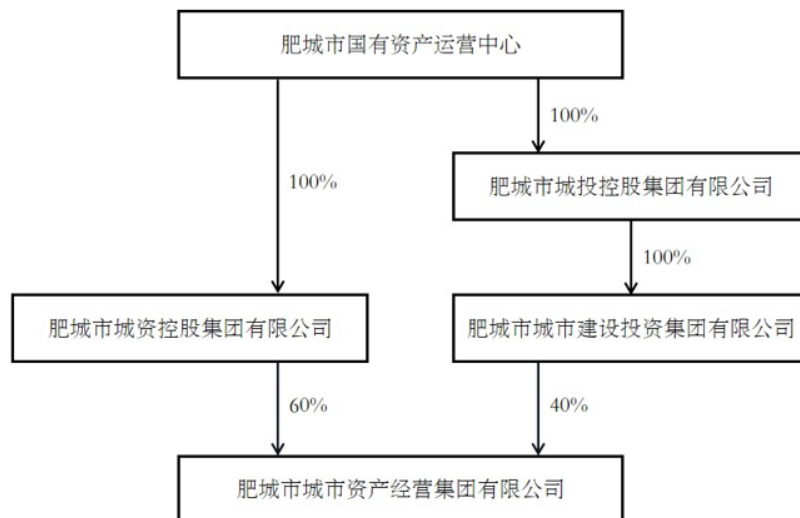


end-2023, FCAMG’s registered capital was RMB2 billion and the paid-in capital was RMB658.1 million.

In 2023, the Feicheng SAOC transferred 60% of the company’s equity to a newly-established LIDC, FCUA (肥城市城资控股集团有限公司) without compensation, according to the decision made by the Feicheng government. The remaining 40% equity was still held by Feicheng City Urban Construction Investment Group Co., Ltd (“FCUC”). In addition, the Feicheng SAOC transferred 100% of FCUC’s equity to another LIDC, Feicheng City Urban Investment Holding Group Co.,Ltd. without compensation.

After the equity transfer, the controlling shareholder of FCAMG changed to FCUA from Feicheng SAOC. The Feicheng government via the Feicheng SAOC still indirectly holds 100% ownership of FCAMG and is the actual and ultimate controller of the company. This equity transfer was under the policy backdrop of LIDC consolidation, aiming to build a flagship LIDC in Feicheng. FCAMG is the core subsidiary of FCUA, and two companies share a same management team.

At end-2023, FCAMG’s shareholding structure was as follows:





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