

# Ningbo Mingshan Construction Development Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	14 June 2024

### Key Figures of Fenghua and NMCD (RMB billion)

	2022	2023
<b>Fenghua</b>		
GDP	90.7	96.0
GDP growth rate (%)	2.4	4.0
Budgetary revenue	6.9	8.7
Government fund	1.0	1.0
Transfer payment	11.6	6.3
Budgetary expenditure	10.7	10.9
<b>NMCD</b>		
Assets	15.4	19.5
Equity	6.5	9.8
Revenue	0.5	0.5

Source: Public information, NMCD 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 Ningbo Mingshan Construction Development Group Co., Ltd. (“NMCD” or “the company”).

### Summary

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

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Fenghua government holds 100% ownership of NMCD via the State-owned Assets Management Center of Fenghua (“Fenghua SAMC”), which is both the sole shareholder and actual controller of the company. The Fenghua government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Fenghua government formulates a performance assessment mechanism for the company and appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance to Fenghua and Strategic Alignment:** NMCD is an important LIDC in Fenghua. It is the sole LIDC that is responsible for the project construction and operation, water supply and resettlement housing construction in the western region of Fenghua, as well as tourist attraction development and construction in Xikou Town tourist area (“Xikou tourist area”) in Fenghua. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

**Ongoing Government Support:** NMCD continued to receive financial subsidies and asset/capital injections from the Fenghua government to support its business operations. We believe the support will remain intact given the company’s strategic importance in Fenghua. Between 2022 and 2023, the company received asset and capital injections in the form of cash, operating assets, equity transfers and other assets, which reached about RMB4.5 billion.

**NMCD’s Financial and Liquidity Position:** NMCD’s total assets increased to RMB19.5 billion at end-2023 from RMB14.6 billion at end-2021, as the company actively participated in the project construction and operation business in Fenghua, as well as the asset injection.

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### Applicable Criteria

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

Its total debt reached RMB8.2 billion at end-2023, which was 24.3% higher than that at end-2021 (RMB6.6 billion). At end-2023, the short-term debt and long-term debt accounted for 31.8% and 68.2% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, ranged between 45.5% and 54.1% in 2021-2023.

NMCD's short-term debt repayment pressure was moderately high. At end-2023, NMCD had cash balance of RMB405.9 million (including RMB25.0 million of restricted cash), compared with its debt due within one year of RMB2,609.4 million. NMCD mainly relied on external financing and has access to various financing channels, including bank borrowings, bond issuance and non-traditional financing (such as financial lease) to support its debt repayments and business operations. At end-2023, NMCD had unused credit facilities of RMB1,736.6 million. Therefore, successfully rolling over its short-term borrowing or obtaining additional support is important for the company to maintain its liquidity.

**Economy and Fiscal Condition of Fenghua:** Fenghua is a district of Ningbo, Zhejiang Province ("Zhejiang"), and located in the south of Ningbo's main urban area. Fenghua maintained steady economic growth during the past three years, with its GDP growth rate at 5.6%, 2.4% and 4.0% in 2021, 2022 and 2023, respectively. The GDP of Fenghua reached RMB96.0 billion in 2023, which was ranked 8<sup>th</sup> among all Ningbo's jurisdictions. The economic structure of Fenghua was mainly driven by the secondary and tertiary industries, which accounted for 60.1% and 36.1% of its GDP in 2023, respectively.

The budgetary revenue of the Fenghua government increased to RMB8.7 billion in 2023 from RMB7.4 billion in 2021, while the contribution of tax revenue was reduced to 69.4% from 86.6% over the same period. The financial self-sufficiency of Fenghua was moderate, with the budget deficit narrowing to 25.3% in 2023 from 27.2% in 2021. The government fund income decreased significantly to RMB1.0 billion in 2023 from RMB19.7 billion in 2021. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 115.7% at end-2023 from 44.4% at end-2021.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Fenghua

Fenghua is a district of Ningbo, Zhejiang, and located in the south of Ningbo's main urban area. Fenghua is a district enriched with a long history and abundant tourism resources. Besides, Fenghua has also been ranked as one of the National Leisure Agriculture and Rural Tourism Demonstration Counties. Fenghua has jurisdiction over 4 towns and 8 communities, with a total land area of 1,277 square kilometers and a sea area of 91 square kilometers. At end-2023, Fenghua had a residential population of about 0.6 million, with an urbanization rate of 61.2%.

Fenghua maintained steady economic growth during the past three years, with its GDP growth rate at 5.6%, 2.4% and 4.0% in 2021, 2022 and 2023, respectively. The GDP of Fenghua reached RMB96.0 billion in 2023, which was ranked 8<sup>th</sup> among all Ningbo's jurisdictions. The economic structure of Fenghua was mainly driven by the secondary and tertiary industries, which accounted for 60.1% and 36.1% of its GDP in 2023, respectively.

#### Fenghua's GDP and Fixed Asset Investment

(RMB billion)	2021	2022	2023
GDP	84.8	90.7	96.0
-Primary industry (%)	4.0	4.0	3.8
-Secondary industry (%)	61.7	60.3	60.1
-Tertiary industry (%)	34.3	35.7	36.1
GDP growth rate (%)	5.6	2.4	4.0
Fixed asset investment	39.5	44.9	46.0
Fixed asset investment growth rate (%)	28.9	13.7	2.5
Population (million)	0.6	0.6	0.6

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Fenghua

The aggregate fiscal revenue of the Fenghua government was mainly derived from budgetary revenue and transfer payment from the higher government. The budgetary revenue of the Fenghua government increased to RMB8.7 billion in 2023 from RMB7.4 billion in 2021, while the contribution of tax revenue was reduced to 69.4% from 86.6% over the same period. The financial self-sufficiency of Fenghua was moderate, with the budget deficit narrowing to 25.3% in 2023 from 27.2% in 2021. The government fund income decreased significantly to RMB1.0 billion in 2023 from RMB19.7 billion in 2021, due to the downturn in property market. The transfer payment from the higher government, which is another important source of fiscal revenue, ranged between RMB2.5 billion and RMB11.6 billion in 2021-2023.

The outstanding amount of the Fenghua government's debt continued to grow in 2021 to 2023, which was mainly due to the rise in special purpose debts. By the end of 2023, the Fenghua government's outstanding debt was RMB18.5 billion, including RMB6.0 billion of general obligations and RMB12.5 billion of special purpose debts. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 115.7% at end-2023 from 44.4% at end-2021.

#### Fenghua's Fiscal Condition

(RMB billion)	2021	2022	2023
Budgetary revenue	7.4	6.9	8.7
Budgetary revenue growth rate (%)	15.0	-6.6	25.4

Tax revenue	6.4	5.5	6.0
Tax revenue (% of budgetary revenue)	86.6	78.7	69.4
Government fund income	19.7	1.0	1.0
Transfer payment	2.5	11.6	6.3
<b>Aggregate revenue</b>	<b>29.6</b>	<b>19.5</b>	<b>16.0</b>
Budgetary expenditure	9.4	10.7	10.9
Budget balance <sup>1</sup> (%)	-27.2	-54.9	-25.3

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

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

NMCD was established in April 2017 with an initial registered capital of RMB199.99 million, funded by the Ningbo City Fenghua District Xikou Town Assets Operation Co., Ltd. After a series of capital replenishments and equity transfers, the company's registered and paid-in capital were both RMB1.5 billion at end-2023. The Fenghua SAMC is the sole shareholder and actual controller of the company.

### Strategic Importance and Government Linkage

#### Strategic Importance of NMCD to Fenghua

NMCD is an important LIDC in Fenghua. It is the sole LIDC that is responsible for the project construction and operation, water supply and resettlement housing construction in the western region of Fenghua, as well as tourist attraction development and construction in Xikou tourist area in Fenghua. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

#### Strong Linkage with the Local Government

NMCD's linkage with the local government is strong as the Fenghua government holds 100% ownership of NMCD via the Fenghua SAMC, which is the sole shareholder and actual controller of the company. The Fenghua government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Fenghua government formulates a performance assessment mechanism for the company and appoints auditors to review the company's operating performance and financial position.

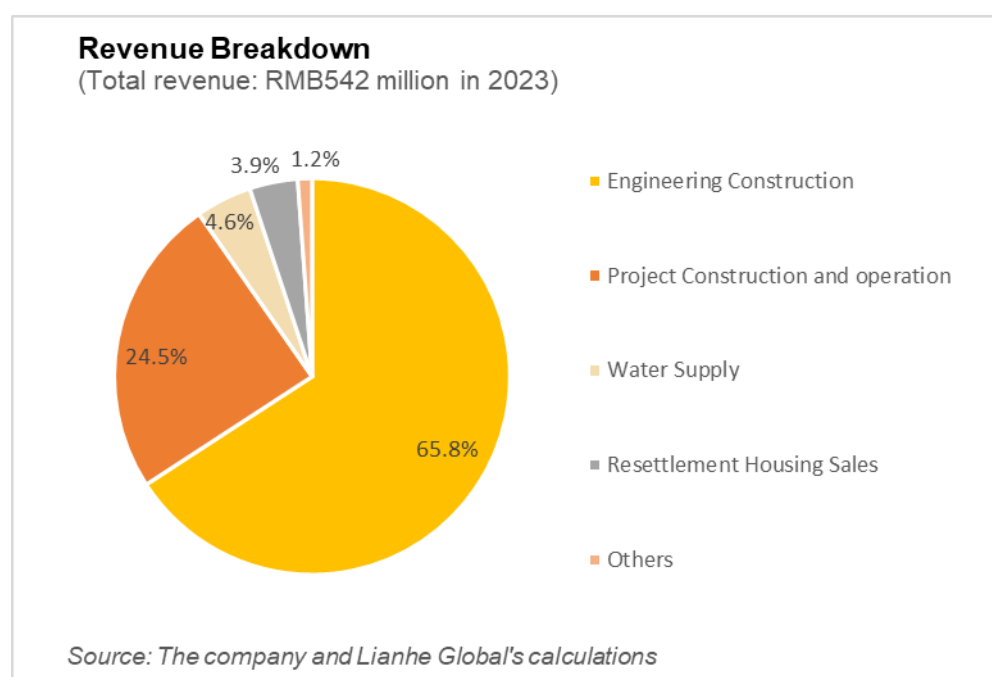
#### Government Support

NMCD continued to receive financial subsidies and asset/capital injections from the Fenghua government to support its business operations. We believe the support will remain intact given the company's strategic importance in Fenghua. Between 2022 and 2023, the company received asset and capital injections in the form of cash, operating assets, equity transfers and other assets, which reached about RMB4.5 billion.

## Business Profile

### The Important Entity Responsible for Project Construction and Tourist Spot Development and Construction in Fenghua

NMCD is an important LIDC in Fenghua that is responsible for project construction and tourist spot development and construction in the region. Specifically, it is the sole LIDC that is responsible for the project construction and operation, water supply and resettlement housing construction in the western region of Fenghua, as well as tourist attraction development and construction in Xikou tourist area in Fenghua. The primary sources of the company's operating income are engineering construction (including construction of tourist attractions), project construction and operation, water supply and resettlement housing sales. The total revenue of NMCD was RMB563 million, RMB540 million, and RMB542 million in 2021, 2022 and 2023, respectively. The gross profit margin ranged between 16.1% and 18.7% over the same period.



### Engineering Construction and Construction of Tourist Attractions

NMCD undertakes engineering construction business in a market-oriented manner. It mainly covers part of the entire construction projects, such as supporting facilities or ancillary buildings, etc. The types of its engineering construction business mainly include the ancillary facilities of the scenic spots (such as commercial buildings, landscape improvement, service facility upgrade and smart scenic area systems, etc.), transportation supporting facilities, water supply, sewage treatment, power supply, affordable housing supporting facilities, etc.

The company mainly carried out the construction of the supporting facilities in tourist attractions in or before 2021, while it seldom undertook self-operated tourism projects. Given the strategic transformation to scenic spot development with its own experience, the company commenced self-operated and self-built tourism projects with the focus on the comprehensive construction of the Buddhist Mingshan project. Since then, the construction of tourist attractions has been included in the engineering construction segment.

From 2021 to 2023, the company's engineering construction segment (including tourist attraction facility construction) achieved revenue of RMB180 million, RMB103 million and RMB356 million and contributed 32.0%, 19.0% and 65.7% of the total revenue, respectively.

### Project Construction and Operation

The company also undertakes the entire construction (including project planning, project quality supervision, construction management, etc.) and the subsequent operation of the projects. The type of projects including industrial parks, theme factory zones, affordable housing, agricultural-tourism complex, etc. Following the project completion, the company operates these projects in market-oriented manner and generates revenue from the operation.

From 2021 to 2023, the company's project construction and operation segment achieved revenue of RMB352 million, RMB331 million and RMB133 million and contributed 62.6%, 61.3% and 24.4% of the total revenue, respectively. NMCD has shifted its business focus to engineering construction and construction of tourist attractions since 2021, which commanded more stable income and faster cash payback cycle in long term. This strategic transformation contributed to the decline of the segment revenue in 2023.

### Water Supply

NMCD is responsible for the water supply to the entire Xikou Town in Fenghua. The company possesses the qualification and licenses of its water supply business. From 2021 to 2023, the company generated revenue of RMB25 million, RMB18 million and RMB25 million from this segment and contributed 4.4%, 3.4% and 4.6% of the total revenue, respectively. The segment contributed a steady proportion of the company's total revenue, which serves as a solid supplement to the total revenue.

### Resettlement Housing Sales

NMCD conducts resettlement housing projects under self-operated model with its own financial resources. The housing units are mainly sold to the specific groups of resettled households. Nevertheless, the remaining housing units are also sold to the public with market-based pricing. From 2022 to 2023, the segment generated revenue of RMB80 million and RMB21 million and contributed 14.8% and 3.9% of the total revenue, respectively.

## Financial Profile

### Balance Sheet Structure and Quality

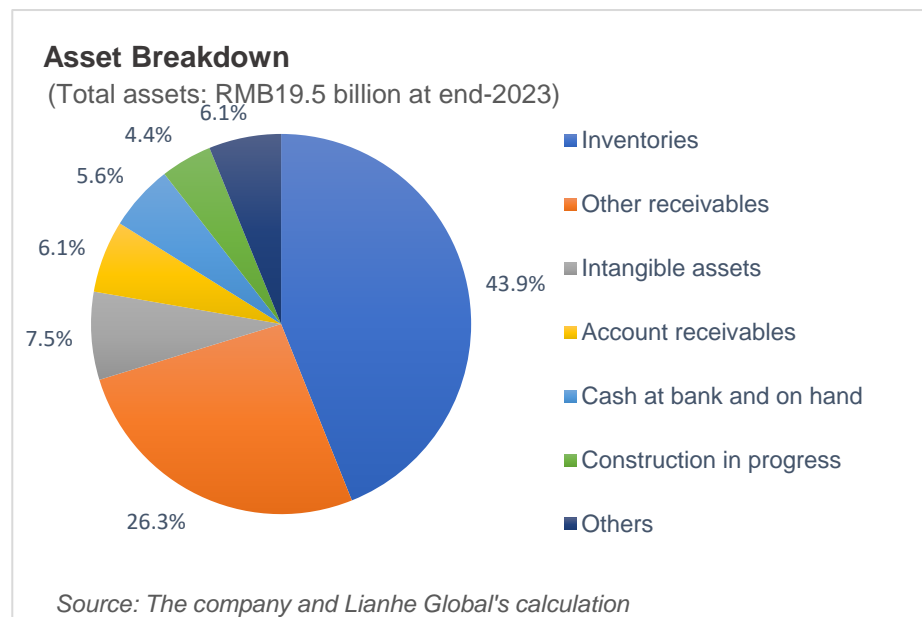
<b>Balance Sheet Structure and Quality</b>			
<b>(RMB million)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Total Asset	14,585	15,442	19,545
Equity	6,289	6,482	9,830
Debt	6,607	7,647	8,214
Debt / (Debt + Equity) (%)	51.2	54.1	45.5
LT Debts	5,016	4,738	5,605
LT Debt / (LT Debt + Equity) (%)	44.4	42.2	36.3

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

NMCD's total assets increased to RMB19.5 billion at end-2023 from RMB14.6 billion at end-2021, as the company actively participated in the project construction and operation

business in Fenghua, as well as the asset injection. Its total debt reached RMB8.2 billion at end-2023, which was 24.3% higher than that at end-2021 (RMB6.6 billion). At end-2023, the short-term debt and long-term debt accounted for 31.8% and 68.2% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, ranged between 45.5% and 54.1% in 2021-2023.

The company's project construction activities accumulated sizeable inventories (mainly construction costs and land to be developed) and investment properties, together accounting for 51.4% of total assets at end-2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period. In addition, the company had a large number of account receivables and other receivables, which was primarily due from government agencies and state-owned enterprise in Fenghua, which had an aging period of mostly 1-3 years.



### Debt Servicing Capability

NMCD's short-term debt repayment pressure was moderately high. At end-2023, NMCD had cash balance of RMB405.9 million (including RMB25.0 million of restricted cash), compared with its debt due within one year of RMB2,609.4 million. NMCD mainly relied on external financing and has access to various financing channels, including bank borrowings, bond issuance and non-traditional financing (such as financial lease) to support its debt repayments and business operations. At end-2023, NMCD had unused credit facilities of RMB1,736.6 million. Therefore, successfully rolling over its short-term borrowing (end-2023: RMB1.7 billion) or obtaining additional support is important for the company to maintain its liquidity.

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