

# Weifang Urban Construction and Development Investment Group Co., Ltd.

## Surveillance Report

### Summary

<b>Issuer Rating</b>	A-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	17 June 2024

### Key Figures of Weifang and WUCDI

(RMB billion)	2022	2023
<b>Weifang</b>		
GDP	730.6	760.8
GDP growth rate (%)	3.7	8.9
Budgetary revenue	61.8	60.8
Government fund	70.9	49.1
Transfer payment	27.7	30.3
Budgetary expenditure	85.0	88.9
<b>WUCDI</b>	<b>2023</b>	<b>2024.3</b>
Assets	135.9	138.5
Equity	74.3	74.4
Revenue	16.1	4.0

Source: Public information, WUCDI and Lianhe Global's calculations

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### Applicable Criteria

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

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weifang Urban Construction and Development Investment Group Co., Ltd. (“WUCDI” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Weifang City, Shandong Province (“Weifang government”) would provide strong support to WUCDI if needed, in light of its majority ownership of WUCDI, WUCDI’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Weifang City, Shandong Province (“Weifang”), and the linkage between the Weifang government and WUCDI, 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 Weifang government may face significant negative impact on its reputation and financing activities if WUCDI encounters any operational and financial difficulties.

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

### Rating Rationale

**Weifang Government’s Ownership and Supervision:** The Weifang government holds 90% ownership of WUCDI through the State-owned Assets Supervision and Administration Commission of Weifang City (“Weifang SASAC”). The remaining 10% stake is held by Shandong Caixin Asset Management Co., Ltd. (“SCAMC”), a LIDC which is fully owned by the Shandong Provincial Department of Finance. The Weifang government is the actual controller of the company. It 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 Weifang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance and Strategic Alignment:** WUCDI remained as the key LIDC in Weifang that is primarily responsible for infrastructure construction and state-owned asset management and operation within the region. Serving as the key entity in charge of infrastructure projects throughout the entire city, WUCDI focuses on investing in and constructing urban infrastructure, transportation, and water conservancy facilities. In addition, the company is also responsible for the land development and transfer, heating supply, water supply, tourism development and other state-owned asset management and operation business within Weifang. WUCDI 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.

**Ongoing Government Support:** WUCDI continues to receive supports from the Weifang government for its business operation, mainly including asset injections, equity injections, government subsidies, financial support, and it also benefits from preferential tax and/or tax exemption policies in encouraged industrial and/or utilities business. Also, WUCDI received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects, with a total amount of RMB2.1 billion from 2021 to 2023. We believe WUCDI is likely going to receive timely government support in the form of operational and/or financial subsidies.

**WUCDI's Financials and Liquidity Position:** WUCDI's total assets decreased to RMB135.9 billion at end-2023, but increased to RMB138.5 billion at end-March 2024, mainly due to the restructure of the regional LIDC. Although the proportion of current assets in the total assets experienced slight fluctuations, the proportion of non-current assets remained stable, and remains predominantly skewed towards non-current assets, indicating an illiquid asset structure. WUCDI's financial leverage (total liabilities to assets) slightly increased to 46.3% at end-March 2024 from 45.3% at end-2023. Given the relevant guidelines of the Weifang government, we expect the leverage of WUCDI to maintain at this level in the future. WUCDI's total debt increased from RMB49.0 billion at end-2022 to RMB50.4 billion at end-March 2024, with short-term debt accounting for 45.8% of the total debt.

The liquidity of WUCDI was moderate. WUCDI had a total cash balance of RMB5.1 billion (including restricted cash of RMB668 million) and a total credit line of RMB47.6 billion (unused: RMB14.1 billion) at end-March 2024, compared with its debt to be due within one year of RMB27.4 billion. Having said that, WUCDI has access to multiple financing channels including bank borrowings, corporate bonds and other financing channels such as finance lease.

**Weifang's Economy and Fiscal Condition:** Weifang's GDP reached RMB760.6 billion in 2023, representing a year-on-year growth rate of 5.1%. Weifang focused on the development of equipment manufacturing, automobile industry, high-end chemical industry, textile industry and food processing industry. While, its fixed asset investment growth rate declined rapidly to 0.8% in 2023, down from 12.7% in 2022.

The Weifang government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The Weifang government's budgetary revenue remained stable, recording at RMB60.8 billion in 2023. The contribution of the tax revenue raised to 64.8% in 2023 from 61.7% in 2022. Weifang's government fund income slumped to RMB49.1 billion in 2023 from RMB71.2 billion in 2022, mainly due to the decreased of land use right transfer income amid challenging property market conditions. On the other hand, the budgetary expenditure arrived at RMB88.9 billion in 2023, up from RMB84.3 billion in 2022. Therefore, its budget deficit expanded to 46.2% in 2023. The outstanding debt of the Weifang government continued to grow. At end-2023, the Weifang government's outstanding debt was RMB235.9 billion. Given the Weifang government borrowed heavily in special purpose debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was elevated to 167.2% at end-2023 from 118.4% at end-2022.

## Rating Sensitivities

We would consider downgrading WUCDI's rating if (1) there is perceived weakening in support from the Weifang government, particularly due to its reduced strategic importance



with diminished government functions, or (2) there is a significant reduction of the Weifang government's ownership of WUCDI, or (3) there is a downgrade in our internal credit assessment on the Weifang government.

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

### Company Profile

WUCDI was established in September 2016, with an initial registered capital of RMB5.0 billion, funded by Weifang SASAC. At end-March 2024, WUCDI's registered and paid-in capital was both RMB5.0 billion. WUCDI had a shareholding structure in which the Weifang SASAC, as the controlling shareholder, held 90% of the company's equity. The remaining 10% equity was held by SCAMC.

WUCDI is a diversified state-owned entity that primarily responsible for infrastructure construction and state-owned asset management and operation within the region. Serving as the sole entity in charge of infrastructure projects throughout the entire city, WUCDI focuses on investing in and constructing urban infrastructure, transportation, and water conservancy facilities.

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