

# Fujian Zhanglong Group Co., Ltd.

## Surveillance Report

### Summary

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

### Key Figures of Zhangzhou and Zhanglong Group

(RMB billion)	2022	2023
<b>Zhangzhou</b>		
GDP	570.7	572.8
GDP growth rate (%)	6.9	5.9
Budgetary revenue	25.1	27.9
Government fund	22.7	17.0
Transfer payment	23.0	5.8
Budgetary expenditure	49.9	49.9
<b>Zhanglong Group</b>		
Assets	81.1	101.9
Equity	25.8	33.0
Revenue	35.0	46.7

Source: Public information, Zhanglong Group and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer and Issuance Credit Rating of Fujian Zhanglong Group Co., Ltd. (“Zhanglong Group” or “the company”) to ‘A-’ from ‘BBB+’; Issuer Rating Outlook Stable.

### Summary

The Issuer Credit Rating upgrade reflects the company’s increasing strategic importance in Zhangzhou, as the company is participating in the development of Dongshan county (“Dongshan”) and deepening its roles in the industrial park development under the guidance of the Zhangzhou Municipal People’s Government (“Zhangzhou government”). It is aligned with the development plans of the Zhangzhou government and strengthened Zhanglong Group’s role as the major entity responsible for regional industrial development in Zhangzhou.

We believe this presents a high possibility that the Zhangzhou government would provide very strong support to Zhanglong Group if needed, in light of its 90% ownership of Zhanglong Group, Zhanglong Group’s strategic position as an important state-owned asset operation and development entity of Zhangzhou and the strong linkage between the Zhangzhou government and Zhanglong Group, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Zhangzhou government may face significant negative impact on its reputation, business and financing activities should Zhanglong Group encounter any operational or financial difficulties.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD bonds issued by Zhanglong Group to ‘A-’ from ‘BBB+’ at the same time. A full list of upgraded issuance rating is included in this report.

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Zhangzhou government has 90% ownership of Zhanglong Group via the State-owned Assets Supervision and Administration Commission of the Zhangzhou government (“Zhangzhou SASAC”). The other 10% stake is held by Fujian Provincial Department of Finance. The Zhangzhou government also has strong control and supervision over Zhanglong Group, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

**Strategic Importance and Strategic Alignment:** Zhanglong Group is an important state-owned entity that is mainly responsible for regional industrial development, infrastructure construction and operation of Zhangzhou, to support the local economic and industrial development, as well as urban infrastructure construction and development. The company is involved in water supply, supply chain and public rental housing businesses in Zhangzhou. Following the injection of assets in Dongshan in 2023, Zhanglong Group is also involved in

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### Applicable Criteria

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

the development of Dongshan, such as fishing port construction, marine technology, logistics, etc. Moreover, Zhanglong Group is involved in the development of a number of industrial parks (such as green building materials, intelligent agriculture, logistics park, etc) and other municipal infrastructure facilities in Zhangzhou.

**Ongoing Government Support:** Zhanglong Group continues to receive supports from the Zhangzhou 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. Zhanglong Group received asset injections in Dongshan and other housing assets with a total value of RMB6.2 billion in 2023. Also, Zhanglong Group received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects, with a total amount of RMB900 million from 2020 to 2023. We believe Zhanglong Group is likely going to receive timely government support in the form of operational and/or financial subsidies.

**Zhanglong Group's Financials and Liquidity Position:** Zhanglong Group's total assets showed a continuous growth trend in the past few years, with the growth rates of 25.7% and 7.6% in 2023 and at end-March 2024, respectively. Zhanglong Group's financial leverage (total liabilities to assets) and total debt capitalization were 67.4% and 61.5% at end-March 2024, respectively, representing a stable trend. Zhanglong Group mainly relies on external financing for capital expenditure. The total adjusted debt of Zhanglong Group increased by 9.0% to RMB57.1 billion at end-March 2024 from RMB45.9 billion at end-2022, of which the short-term and long-term debt accounted for 52.6% and 47.4% of its total debt, respectively. The liquidity of Zhanglong Group was moderate. At end-March 2024, Zhanglong Group had total cash of RMB6.9 billion (including restricted cash of RMB1.2 billion) and a total credit line of RMB54.9 billion (of which RMB25.3 billion was available), compared with its debt to be due within one year of RMB30.0 billion. Having said that, Zhanglong Group was able to mitigate the risk of the short-term debt burden through rolling over the bank borrowings and capital market refinancings. Zhanglong Group has access to multiple financing channels including bank borrowings, bond issuance and other financing channels such as finance lease.

**Zhangzhou's Economy and Fiscal Condition:** Zhangzhou's GDP reached RMB572.8 billion in 2023, representing a year-on-year growth rate of 5.9%, which was ranked 4<sup>th</sup> out of all cities in Fujian Province in terms of GDP in 2023. Zhangzhou government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Zhangzhou government increased to RMB27.9 billion and represented a growth rate of 11.5% in 2023, with the contribution of tax revenue to the budgetary revenue elevating to 59.8% in 2023 from 51.8% in 2022. The financial self-sufficiency rate of Zhangzhou remained low and recorded a budget deficit of 86.8% in 2023. The outstanding debt of the Zhangzhou government continued to grow in 2023, which was mainly due to the rise in special purpose debt. The outstanding debt was RMB142.8 billion in 2023, including RMB49.6 billion of general obligations and RMB93.2 billion of special purpose debt. The debt ratio (total outstanding debt/aggregate fiscal revenue) surged to 269.5% in 2023 from 161.2% in 2022.

## Rating Sensitivities

We would consider downgrading Zhanglong Group's rating if (1) there is perceived weakening in support from the Zhangzhou government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant

reduction of the Zhangzhou government's ownership of Zhanglong Group, or (3) there is a downgrade in our internal credit assessment on the Zhangzhou government.

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

Any rating action on Zhanglong Group's rating would result in a similar rating action on its USD bonds.

## Company Profile

Zhanglong Group was established in July 2001 with an initial registered capital of RMB100 million under the approval of the Zhangzhou government. After several capital injections and equity transfers, the registered capital and paid in capital of Zhanglong Group both became c. RMB3.83 billion at end-March 2024. The Zhangzhou government, as the actual controller of the company, has 90% ownership of Zhanglong Group via the Zhangzhou SASAC. The other 10% stake is held by Fujian Provincial Department of Finance.

Zhanglong Group is a diversified state-owned entity that engages in infrastructure construction, water supply and sewage treatment, industrial park development in Zhangzhou. It also engages in trading business, property sales, expressway operation, modern agriculture, industrial investment and other businesses to facilitates the economic development and support the urban development of the region.

## Full List of Issuance Ratings

A full list of issuance ratings is included below. Any rating action on Zhanglong Group's rating would result in a similar rating action on its USD bonds:

- USD500 million 6.7% senior unsecured bonds due 2026 upgraded to 'A-' from 'BBB+'

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