

Pizhou Communications Holding Group Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Pizhou Communications Holding Group Co., Ltd. (“PCHG” or “the company”); Issuer Rating Outlook is Stable

Summary

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

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

Rating Rationale

Pizhou Government’s Ownership and Supervision: The Pizhou government holds the full ownership of PCHG through Pizhou Finance Bureau. The Pizhou 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 Pizhou government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Pizhou and Strategic Alignment: PCHG is primarily responsible for transportation-related facilities construction and operation within the region. PCHG 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: PCHG continued to receive financial subsidies and asset/capital injections from the Pizhou government to support its business operations. Between 2020 and the first three months of 2024, PCHG received financial subsidies of totally about RMB621.5 million from the local government. Meanwhile, PCHG received asset injections in the form of cash and other assets about RMB1.8 billion. We expect PCHG to receive ongoing support from the Pizhou government in the coming years considering its strategic importance in Pizhou.

Economy and Fiscal Condition of Pizhou: Pizhou ranked 43th among the China’s top 100 counties in terms of comprehensive strength in 2023, with its GDP recording at RMB127.7 billion, representing a year-over-year growth rate of 10.0%, up from 4.2% recorded in 2022. Pizhou’s economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 37.5% and 49.1% in 2023, respectively. Its economic

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 July 2024

Key Figures of Pizhou and PCHG (RMB billion)

Pizhou	2022	2023
GDP	115.7	127.7
GDP growth rate (%)	4.2	10.0
Budgetary revenue	4.3	4.6
Government fund	10.7	8.1
Transfer payment	7.1 [#]	6.4
Budgetary expenditure	12.5	12.9
PCHG	2023	2024.3
Asset	15.7	16.7
Equity	7.5	7.5
Revenue	0.6	0.1

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

[#]Updated data

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Applicable Criteria

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

development focused on semiconductors, carbon-based new materials industry and high-end equipment manufacturing in recent years.

The Pizhou government's budgetary revenue rebounded to RMB4.6 billion in 2023 from RMB4.3 billion in 2022, with the contribution of tax revenue elevated to 83.0% from 74.4% over the same period. The fiscal self-sufficiency of the Pizhou government remained weak, although its budget deficit narrowed to 179.0% in 2023 from 189.6% in 2022. In addition, Pizhou's government fund income, mainly generated by land sales, further dropped by 24.1% to RMB8.1 billion in 2023, owing to the weak property market.

The outstanding debt of the Pizhou government continued to grow. At end-2023, the Pizhou government's outstanding debt was RMB18.4 billion, 7.6% higher than that at end-2022 (RMB17.1 billion). Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had surged to 96.2% at end-2023 from 77.4% at end-2022, mainly due to the large drop in aggregate revenue.

PCHG's Financial and Liquidity Position: PCHG's total assets increased to RMB16.7 billion at end-March 2024 from RMB14.5 billion at end-2022, which was largely due to the company actively participated in transportation-related facilities construction, accumulating large number of inventories and account receivables. PCHG's assets mainly consisted of inventories, receivables, cash at bank and on hand and fixed assets. Although the company's asset structure was dominated by current assets, the inventories monetization was heavily influenced by the progress of government settlements, the use of some assets was restricted and some funds were occupied by accounts receivable. Therefore, the company's overall asset liquidity was weak.

PCHG's total debt continued to grow, which increased by 42.6% from RMB5.4 billion at end-2022 to RMB7.7 billion at end-March 2024, mainly due to the restructuring of debt structure, which increased the proportion of long-term debt to total debt from 39.9% at the end of 2022 to 52.0% at the end of March 2024. The company's financial leverage, as measured by debt/capitalization, was elevated to 50.7% at end-March 2024 from 42.4% at end-2022.

PCHG's liquidity was tight. At end-March 2024, PCHG had unrestricted cash balance of RMB296.7 million, compared with its debt to be due within one year of RMB3.7 billion. At end-March 2024, the company had unused credit facilities of RMB2.7 billion. Therefore, successfully rolling over its short-term bank borrowings and obtaining additional financing sources or government support are important to the company in maintaining its liquidity.

Rating Sensitivities

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

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

Company Profile

PCHG was established in October 2019 with an initial registered capital of RMB0.2 billion, funded by Pizhou Finance Bureau. In December 2019, Pizhou Finance Bureau, as sole shareholder of the company, increased the registered capital of the company to RMB0.6 billion in monetary form.



At end-March 2024, the registered and paid-in capital of the company was both RMB0.6 billion. Pizhou Finance Bureau remains as the sole shareholder of the company. The actual controller of the company is the Pizhou government.

PCHG is an important LIDC that is responsible for transportation-related facilities construction and operation in Pizhou. It undertakes investment, construction, development and operation of transportation facilities in Pizhou, as well as the expansion of transportation-related industries.

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