



Laizhou Finance Investment Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	9 July 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer Credit Rating of Laizhou Finance Investment Co., Ltd. (“LFI”). Issuer Rating Outlook Stable.

Summary

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

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

Rating Rationale

Laizhou Government’s Ownership and Supervision: The Laizhou government directly holds the full ownership of LFI through the Finance Bureau of Laizhou City (“Laizhou FB”), and is the actual controller of the company. The Laizhou 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 Laizhou government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Laizhou and Strategic Alignment: LFI remains as the most important LIDC in Laizhou. It is primarily responsible for infrastructure construction and operation of state-owned assets within the region with strong regional advantages. The company undertakes most of the important municipal infrastructure projects in the region, and is responsible for urban renewal, rural revitalization, sewage treatment, water supply and other industrial fields in the region under the planning of the Laizhou government. LFI 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: LFI received operational and financial support from the Laizhou government. LFI received a total subsidy amount of RMB887.6 million from 2021 to 2023, mainly including operating subsidies. The Laizhou government will repurchase some infrastructure construction projects and provide policy supports to LFI to ensure its business operation. Besides, LFI received multiple asset injections in the form of cash, equities, operating income rights of ore sources, real estates and other operating income rights from the Laizhou government to expand its asset size and diversify its business. Given the regional advantage in infrastructure construction in Laizhou, LFI has advantages to obtain

Key Figures of Laizhou and LFI (RMB billion)

Laizhou	2022	2023
GDP	77.1	82.0
GDP growth rate (%)	5.0	6.7
Budgetary revenue	4.2	5.0
Government fund	3.2	1.3
Transfer payment	1.7	1.8
Budgetary expenditure	5.8	6.2
LFI		
Asset	28.0	33.0
Equity	18.3	15.6
Revenue	1.2	0.8

Source: Laizhou Bureau of Statistics, Laizhou Finance Bureau, LFI and Lianhe Global’s calculations

Analysts

Jack Li CESGA
(852) 3462 9585
jack.li@lhratingsglobal.com

Toni Ho, CFA, FRM
(852) 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

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

land resources and major projects. We believe LFI is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

Laizhou's Economy and Fiscal Condition: Laizhou's GDP recorded RMB82.0 billion in 2023, representing a year-over-year growth rate of 6.7%. Laizhou's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 46.2% and 41.9% of Laizhou's GDP, respectively, in 2023. The fixed asset investment maintained rapid growth in the past two years, with its growth rate recording at 8.0% in 2023.

The budgetary revenue of the Laizhou government increased to RMB5.0 billion in 2023 from RMB4.2 billion in 2022, with the contribution of tax revenue further elevated to 71.4% from 67.7% over the same period. Laizhou's government fund income, mainly generated by land sales, slumped to RMB1.3 billion in 2023 from RMB3.2 billion in 2022, owing to the weak property market.

The fiscal self-sufficiency rate of Laizhou government remained insufficient, although its budget deficit narrowed to 24.2% in 2023 from 35.9% in 2022. The debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Laizhou government surged to 99.0% at end-2023 from 74.7% at end-2022, as the local government's outstanding debt increased to RMB8.0 billion from RMB6.8 billion over the same period, mainly due to the increase in special purpose debt.

LFI's Financial Matrix and Liquidity Position: LFI's total assets increased to RMB33.0 billion at end-2023 from RMB28.0 billion at end-2022, mainly due to the large increase in investment properties, resulting from the large-scale asset injection from the Laizhou government. At end-2023, current assets constituted the major proportion of the company's asset structure, accounting for 51.4% of its total assets. LFI's financial leverage (total liabilities to total assets) increased to 52.8% at end-2023, while its adjusted debt increased to RMB13.5 billion at end-2023 from RMB6.4 billion at end-2022, where the short-term debt accounted for 55.3%. The liquidity of LFI was relatively tight, with unrestricted cash and unused credit facilities of RMB57.8 million and RMB4.5 billion at end-2023, respectively, compared with its debt due within one year of RMB5.4 billion. Having said that, LFI has access to various financing channels, including bank loans and non-traditional financing (e.g., finance lease), to support its debt repayment and business operations.

Rating Sensitivities

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

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

Company Profile

LFI was established in 2015 with an initial registered capital of RMB20 million, funded by Laizhou FB. Its registered capital and paid-in capital increased to RMB3 billion and RMB461.9 million at end-2023 after several capital and equity transfers from the Laizhou government. At end-2023, LFI had a shareholding structure in which the Laizhou FB, as the controlling shareholder, held 100% of the company's equity.



LFI is primarily responsible for infrastructure construction and operation of state-owned assets within the region with strong regional advantages. The company undertakes most of the important municipal infrastructure projects in the region, and is responsible for urban renewal, rural revitalization, sewage treatment, water supply and other industrial fields in the region under the planning of the Laizhou government.

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.