

Zhejiang Changsanhe Holding Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	4 July 2024

Key Figures of Huzhou and ZCHG (RMB billion)

	2022	2023
Huzhou		
GDP	385.0	401.5
GDP growth rate (%)	3.3	5.8
Budgetary revenue	38.7	41.1
Government fund	54.6	54.6
Transfer payment	15.6	14.0
Budgetary expenditure	60.2	60.7
ZCHG		
Asset	19.7	23.2
Equity	16.8	16.9
Revenue	0.7	0.7

Source: Huzhou Bureau of Statistics, Huzhou Finance Bureau, ZCHG and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘A-’ global scale Long-term Issuer Credit Rating of Zhejiang Changsanhe Holding Group Co., Ltd. (“ZCHG”). Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Huzhou City, Zhejiang Province (“Huzhou government”) would provide strong support to ZCHG if needed, in light of its indirect majority ownership of ZCHG, ZCHG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and industry cultivation in Huzhou City, Zhejiang Province (“Huzhou”), especially in Yangtze River Delta (Huzhou) Industrial Cooperation Zone (“Changhe Area”), and the linkage between the Huzhou government and ZCHG, 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 Huzhou government may face significant negative impact on its reputation and financing activities if ZCHG encounters any operational and financial difficulties.

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

Rating Rationale

Huzhou Government’s Ownership and Supervision: The Huzhou government indirectly holds the majority ownership of ZCHG through State-owned Assets Supervision and Administration Commission of Huzhou City (“Huzhou SASAC”) and other LIDCs in the region, and is the actual controller of the company. The Huzhou SASAC, as the largest shareholder, directly holds 47.22% of the company’s shares and indirectly holds 28.37% of the company’s share, totaling to 75.59% of the company’s shares. The remaining 23.09% and 1.32% of the company’s shares were indirectly held by Tianzihu Office of Huzhou Inter-Provincial Undertaking Industrial Transfer Demonstration Zone Management Committee and Zhejiang Province Finance Development Co. Ltd., respectively. The Huzhou 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 Huzhou 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 Huzhou and Strategic Alignment: ZCHG remained as the sole implementation body for infrastructure investment, construction and operation in Changhe Area. It is primarily responsible for the industrial land development, construction of roads and other projects, industry cultivation and investment promotion within the Changhe Area. Additionally, it also undertakes infrastructure projects in the neighboring areas. With the support of the local government, the company actively participates in and contributes to the integration of the Yangtze River Delta. The company plays an important role in promoting the economic and social development of the Changhe Area and Huzhou. Its business operation and development have been aligned with the government’s development plans.

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Applicable Criteria

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

Ongoing Government Support: ZCHG received operational and financial support from the government. ZCHG received a total subsidy amount of RMB187.2 million from 2021 to 2023, mainly including operating subsidies. The Huzhou government also injected cash, land, properties and other assets into ZCHG to expand its asset size and diversify its business. Besides, the government will repurchase some infrastructure projects and provide policy supports to ZCHG to ensure its business operation. Given the regional advantages in infrastructure construction within the Changhe Area, ZCHG has advantage to obtain major projects and other resources. We believe ZCHG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

Huzhou's Economy and Fiscal Condition: Huzhou' GDP recorded RMB401.5 billion in 2023, representing a year-over-year growth rate of 5.8%. Huzhou's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 49.3% and 46.7% in 2023, respectively.

The Huzhou government's aggregate fiscal revenues are mainly derived from budgetary income and government fund income. The Huzhou government's budgetary revenue increased to RMB41.1 billion in 2023 from RMB38.7 billion in 2022, with the contribution of tax revenue further reduced to 84.4% from 88.7% over the same period. The financial self-sufficiency rate of Huzhou remained insufficient, although its budget deficit narrowed to 47.9% in 2023 from 55.4% in 2022. In addition, Huzhou's government fund income remained stable at RMB54.6 billion in 2023, while transfer payment from higher government decreased by 11.8% year-over-year to RMB14.0 billion in 2023.

The outstanding debt of the Huzhou government continue to grow in recent years and reached RMB136.4 billion at end-2023, which was 14.7% higher than that at end-2022 (RMB118.9 billion). The debt ratio, as measured by the total government debt/aggregate revenue, was further elevated to 122.2% at end-2023 from 107.4% at end-2022, mainly due to the large increase in special purpose debt.

ZCHG's Financial Matrix and Liquidity Position: ZCHG's total assets increased rapidly to RMB23.2 billion at end-2023 from RMB19.7 billion at end-2022, which was primarily driven by the increase in inventories and intangible assets. ZCHG's total debt was RMB4.7 billion with a debt to capitalization ratio of 21.7% at end-2023. Although the cash at bank and on hand increased further to RMB820 million at end-2023 from RMB727 million at end-2022, the total assets of ZCHG were illiquid primarily due to the large proportion of costs associated with construction projects and intangible assets.

The liquidity of ZCHG was sufficient. At end-2023, ZCHG had unrestricted cash balance and unused credit facilities of RMB704.5 million and RMB6.8 billion, respectively, compared with its non-current debt due within one year of RMB537.6 million at the same time. Besides, ZCHG proactively plans to enhance its financing channels by exploring options such as bond issuance.

Rating Sensitivities

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



We would consider upgrading ZCHG's rating if (1) there is an upgrade in our internal credit assessment on the Huzhou government. (2) there is an upgrade in our internal credit assessment on the Huzhou government.

Company Profile

ZCHG was established was established in August 2011. After an array of capital injection and equity transfer, the company's registered and paid-in capital reached RMB3.0 billion and RMB2.3 billion, respectively, at end-2023. ZCHG had a shareholding structure in which the Huzhou SASAC, as the controlling shareholder, held 47.2% of the company's equity directly and 28.4% of it indirectly through other stated-owned enterprises.

ZCHG is the sole implementation body for infrastructure investment, construction and operation in Changhe Area. It is primarily responsible for the industrial land development, construction of roads and other projects, industry cultivation and investment promotion within the Changhe Area. Additionally, it also undertakes infrastructure projects in the neighboring areas.



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