

Zhangzhou Yuanshan Development Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Zhangzhou Yuanshan Development Co., Ltd. (“ZZYD” or “the company”); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the Zhangzhou Municipal People’s government (“the Zhangzhou government”) would provide moderately strong support to ZZYD if needed. This mainly considers the Management Committee of Zhangzhou High-Tech District’s (“ZHTD MC”) (a local office of the Zhangzhou government and the de facto local government of Zhangzhou High-Tech District (“ZHTD”))’s indirect full ownership of ZZYD, ZZYD’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure construction in ZHTD, which is a national high-tech industrial development zone and one of the four key driver zones of Zhangzhou’s economic development, and the linkage between ZHTD MC and ZZYD, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the Zhangzhou government may face negative impact on its reputation and financing activities if ZZYD encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: In 2023, the Finance Bureau of ZHTD (“the Finance Bureau”) transferred 100% shares of ZZYD to its wholly owned LIDC, Zhangzhou Gaoxin Development Co., Ltd. (“ZZGD”). The Finance Bureau remains as the actual controller of ZZYD. The local government has strong control over the company, including the appointment of senior management and supervision of its development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: ZZYD is an important LIDC responsible for infrastructure construction and asset operation in ZHTD, which is a national high-tech industrial development zone and one of the four key driver zones of Zhangzhou’s economic development. The company continues to undertake key development projects, such as shantytown renovations and litchi related tourism and industry projects. ZZYD plays an important role in Zhangzhou’s economic development. ZZYD’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

However, ZZYD’s business operations are largely limited in ZHTD, constraining its strategic positioning in Zhangzhou as a whole. In addition, most of ZZYD’s revenue was generated by low margin trading activities, which expose ZZYD to a higher operational and commercial risks compared with other LIDCs in Zhangzhou.

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 July 2024

Key Figures of Zhangzhou and ZZYD (RMB billion)

Zhangzhou	2022	2023
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	52.2
ZZYD	2023	2024.3
Asset	19.7	21.0
Equity	7.0	7.0
Revenue	9.0	2.0

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

Analysts

Roy Luo, FRM, CESGA
(852) 3462 9582
roy.luo@lhratingsglobal.com

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

Applicable Criteria

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

Ongoing Government Support: ZHTD MC provided operational subsidies amounting to RMB116 million between 2021 and 2023. The Zhangzhou government has also guided the major state-owned entity in Zhangzhou to provide necessary support to ensure ZHTD's development and relieve any liquidity stress of LIDCs in ZHTD. We expect ZZYD to receive ongoing support from the local government in the coming years considering its strategic importance in Zhangzhou.

Economy and Fiscal Condition of Zhangzhou and ZHTD: Zhangzhou's GDP reached RMB572.8 billion in 2023, representing a year-over-year growth rate of 5.9%. Its GDP per capita was RMB113,087 and disposable income per capita was RMB38,727 in 2023, which were increased by 6.0% and 6.1% compared to 2022, respectively. The budgetary revenue of the Zhangzhou government increased to RMB27.9 billion and represented an annual growth rate of 11.5% in 2023. However, 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, mainly due to the new issuance of special debts to support local public projects. The government debt ratio (total outstanding debt/aggregate fiscal revenue) surged to 269.5% in 2023 from 161.2% in 2022.

ZHTD was established in November 2012 and was upgraded to a national high-tech industrial development zone in December 2013 with the approval of the State Council. As a key driver of Zhangzhou's economic development, ZHTD is focusing on the development of equipment manufacturing, electronic information, food and health care and modern service industries. ZHTD's GDP grew by 4.5% to RMB22.5 billion in 2023.

ZZYD's Financial and Liquidity Position: ZZYD's asset size grew steadily to RMB21.0 billion at end-March 2024 from RMB16.6 billion at end-2023. This was due to the company's active participation in ZHTD's project construction. ZZYD primarily relied on borrowings to support its asset expansion. The company's total debt increased by 20.3% to RMB10.9 billion at end-March 2024 from RMB9.1 billion at end-2022. The company's financial leverage, as measured by total debt/capitalization, was 61.0% at end-March 2024.

The liquidity of ZZYD was tight. At end-March 2024, the company had cash of RMB1.4 billion (including restricted cash of RMB509 million). At the same time, the company had debt due within one year of RMB5.3 billion. ZZYD has access to various financing channels, including bank borrowings and other non-traditional financings, to support its debt repayments and business operations. The company had unused credit lines of RMB483 million and available bond issuance quota of RMB2.2 billion at end-March 2024. Nevertheless, successfully rolling over its short-term bank borrowings (RMB1.0 billion at end-March 2024) and obtaining additional financing or government support are important for ZZYD to maintain its liquidity.

Rating Sensitivities

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

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



Company Profile

ZZYD was established in 2017 by the Finance Bureau with a registered capital of RMB1.24 billion and a paid-in capital of RMB867 million. In 2023, the Finance Bureau transferred 100% shares of ZZYD to ZZGD, its wholly owned LIDC. The Finance Bureau remains as the actual controller of ZZYD.

ZZYD is an important LIDC responsible for infrastructure construction in ZHTD. The company mainly participates in ZHTD's urban development projects, such as city infrastructures, public facilities and road constructions. It also engages in other businesses like trading, leasing of properties and parking lots, canteen catering, property management, daffodil sales, printing and human resources services.

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 upgrades or downgrades 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 relying 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 China Lianhe Credit Rating 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.