

Bazhou Development Holding Group Co., Ltd. Surveillance Report

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

Summary

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

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

Rating Rationale

Bazhou Government’s Ownership and Supervision: The Bazhou government holds the full ownership of BDHG through Bazhou Finance Bureau (“Bazhou FB”), and it is the ultimate controlling shareholder of the company. The Bazhou 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 Bazhou government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Bazhou and Strategic Alignment: BDHG, as the most important LIDC in Bazhou, is primarily responsible for the state-owned assets operation and infrastructure construction in Bazhou with strong franchised advantages. The company undertakes most of Bazhou’s infrastructure projects in the region, and is responsible for water supply and sewage treatment, bail-out, trading, leasing, land sale, sanitation, human resources services and heating supply business, etc. within the region. In addition, the company is expanding its business, such as new energy (photovoltaic, wind energy, charging pile), real estate development, furniture trade, tourism, industrial investment, etc., aiming to enhance its revenue generation capacity, improve the efficiency of the use of funds and reduce the financial burden. BDHG adjusts its strategic direction according to Bazhou’s economic strategy and market demand. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: BDHG continued to receive financial subsidies and asset/capital injections from the Bazhou government to support its business operations. Between 2020 and 2023, BDHG received financial subsidies of totally about RMB290.2 million from the local government. Meanwhile, BDHG received capital and asset injections in the form of cash, franchise rights, buildings, construction projects, lands and other assets

Summary

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

Key Figures of Bazhou and BDHG (RMB billion)

Bazhou	2022	2023
GDP	45.0	45.2
GDP growth rate (%)	2.7	4.8
Budgetary revenue	2.9	2.4
Government fund	1.0	1.2
Transfer payment	1.9	1.7*
Budgetary expenditure	5.4	6.2
BDHG	2022	2023
Asset	13.0	14.7
Equity	11.1	11.6
Revenue	0.4	0.7

Source: Public information, BDHG’s unaudited financial reports and Lianhe Global’s calculations
*Estimated data due to lack of updated information

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

of about RMB9.3 billion. We expect BDHG to receive ongoing support from the Bazhou government in the coming years considering its strategic importance in Bazhou.

Economy and Fiscal Condition of Bazhou: The economic growth of Bazhou accelerated in 2023, with a growth rate of 4.8%, up from 2.7% recorded in 2022. The GDP amount of Bazhou reached RMB45.2 billion in 2023, ranking 3rd among all districts and counties under the jurisdiction of Langfang. Considering Bazhou's economic structure, the economy was primarily driven by the secondary and tertiary industries, which accounted for 52.4% and 44.9% of GDP in 2022, respectively. Affected by the downturn of the real estate industry, fixed asset investment of Bazhou continued to fall in 2023, with a growth rate of -15.0%.

The aggregate fiscal revenue of the Bazhou government mainly originated from the budgetary revenue and transfer payment from the higher government. The Bazhou government's budgetary revenue decreased to RMB2.4 billion from RMB2.9 billion in 2022, while the contribution of tax revenue was elevated to 73.1% from 43.7% over the same period, mainly due to the large drop in non-tax revenue. The financial self-sufficiency rate of the Bazhou government remained low, and its budget deficit widened to 156.2% in 2023 from 87.5% in 2022. The debt ratio, which is measured as total government debt/aggregate revenue, was elevated to 178.5% at end-2023 from 83.3% at end-2022.

BDHG's Financial and Liquidity Position: BDHG's total asset size grew moderately to RMB14.7 billion at end-2023 from RMB13.0 billion at end-2022, with a year-over-year growth rate of 12.8%. The increase of BDHG's total assets in 2023 was largely due to its increase in investment properties and construction in progress. BDHG's assets mainly consisted of investment properties, intangible assets, inventories, construction in progress and other equity instruments investments at end-2023, representing 80.0% of the company's total asset. BDHG had large proportion of non-current assets (70.0% at end-2023) and the overall asset liquidity was weak.

BDHG's financial leverage (total liabilities to assets) was elevated to 20.9% at end-2023, up from 15.0% at end-2022, but remained at a relatively low level. BDHG's total debt increased from RMB1.5 billion at end-2022 to RMB1.6 billion at end-2023, mainly due to the increase of long-term borrowings for operational needs, and other payables due to the increase in principal and interest payable on borrowings. The short-term debt and long-term debt accounting for 36.3% and 63.7% of the total debt at end-2023. The company's financial leverage, as measured by debt/capitalization, increased to 12.3% at end-2023 from 12.0% at end-2022.

BDHG's liquidity was moderate. At end-2023, BDHG had unrestricted cash balance of RMB606.1 million, compared with its debt to be due within one year of RMB592.3 million. At end-2023, the company had unused credit facilities of RMB859.8 million. In addition, BDHG has access to various financing channels, such as bank loans and non-traditional financing, to support its debt repayment and business operations.

Rating Sensitivities

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

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

Company Profile

BDHG, formerly known as Bazhou Caixin City Construction Investment and Development Operation Co., Ltd., was established in June 2002 by Bazhou Bureau of Culture and Sports, Bazhou Bureau of Education and Bazhou Bureau of Construction, with an initial registered capital of RMB30.57 million. After an array of capital replenishment and equity transfers, at end-2023, BDHG's registered capital was RMB5.0 billion and the paid-in capital was RMB1.99 billion. The sole shareholder of the company is the Bazhou FB, and the ultimate controlling shareholder is the Bazhou government.

BDHG is the flagship LIDC that is responsible for state-owned assets operation and infrastructure construction in Bazhou with strong franchised advantages. The company undertakes most of Bazhou's infrastructure projects in the region, and is responsible for water supply and sewage treatment, bail-out, trading, leasing, land sale, sanitation, human resources services and heating supply business, etc. within the region. In addition, the company is expanding its business, such as new energy (photovoltaic, wind energy, charging pile), real estate development, furniture trade, tourism, industrial investment, etc., aiming to enhance its revenue generation capacity, improve the efficiency of the use of funds and reduce the financial burden. BDHG adjusts its strategic direction according to Bazhou's economic strategy and market demand. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

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