

Onshore LGFVs 1H2019 Review: Policies and financing environment remained accommodative but credit polarization among LGFVs became more pronounced

1. Policies and Financing Environment:

In 1H2019, monetary and macroeconomic policies remained accommodative with adequate liquidity in the market which improved the financing of LGFVs marginally. Overall policies on LGFVs remained restrictive and resolute steadfastly to resolve their implicit debt by pushing forward the reform and commercialization programs.

The policy of “close the loopholes, and open the front gate” remained in place. First, the quota and variety of local governments’ special bonds have increased. Second, the pilot program in Zhenjiang, Jiangsu would effectively alleviate implicit debt risk by lowering LGFVs’ cost of debt. Third, both the Shenzhen and Shanghai stock exchanges have loosened the 50% constraint¹ regulating LGFVs’ bond issuances which lowered the hurdle for them to issue debt. On the other hand, the commitment to deleverage and regulate LGFVs’ implicit debt remained intact.

Credit polarization among LGFVs became more pronounced in 1H2019 as default incidents on non-standard financial products increased. Default incidents increased twofold compared to the same period last year. The profiles of the non-standard financial products remained similar to those in 2018, which included low administrative levels and economically disadvantaged provinces like Guizhou, Yunnan, Hunan, Inner Mongolia, Shaanxi etc. Increased default incidents of the non-standard financial products had negative ramifications on the financial market psyche.

2. LGFV Issuance:

(a) Issuance: In 1H2019, there was a marked increase in terms of number and size of issuance compared to the same period last year, especially in the short-tenor segment. There was no marked change in terms of issuance regions. There were more issuances from AA-rated issuers and the credit profile of the median cohort slipped. City and district level issuers increased their issuances.

(b) Yield Spread: Market liquidity improved in 1H2019, and the cost of issuance decreased. At the same time, mid-to-lowly rated issuers continued to face wider credit spreads while highly-rated issuers saw their spreads tightened.

(c) Maturity Profile: At end-June 2019, medium-term notes and corporate and enterprise bonds made up the bulk of the outstanding LGFV debt. A majority of the LGFV debt would mature in the next 4 years, in which 2021 would be the peak repayment year. Jiangsu province still led the rest by leaps and bounds. Provinces with large maturing bonds deserve attention.

(d) Rating Transition: As the financing environment improved in 1H2019, there were more upgrades than downgrades. Overall, credit quality remained stable.

¹ Revenue sourcing from governments cannot exceed 50% of the total.

3. Credit Outlook:

Looking forward to 2H2019, we expect the economy to face downward pressure, and hence monetary and administrative policies are likely to remain accommodative. Furthermore, we expect LGFVs to find an improving refinancing environment which will be conducive for their debt issuances.

For more details, please refer to the Chinese report:

《联合信用评级有限公司 2019 年上半年城投行业报告》

<http://www.lianhecreditrating.com.cn/News.aspx?m=20140627100707687840&n=20190731174701683039>

Note: In case of any discrepancies between the English version and the Chinese version, the Chinese version shall prevail.

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 which 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 a credit committee vesting process. 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 circumstances 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 fees 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 entities nor its related parties 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 part, 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 2019.