聯合評級國際
Lianhe Ratings Global

Non-Rating Commentary
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QPIG- Is it a LGFV or SOE?

Qinghai Provincial Investment Group ("QPIG" or "the company" or in Chinese "青海省投资集团有限公司") is under the spotlight for missing its interest payment on 22 February 2019. QPIG had a prior incident of nearly missing scheduled payment in 2018. Many media outlets refer QPIG in their reports as an LGFV and subsequentially have started to question Chinese local and central governments' willingness to support LGFVs. Lianhe Global believes QPIG is an SOE rather than an LGFV. While Lianhe Global does not currently rate QPIG, we are able to reach our assessment on the nature of QPIG based on publicly available information.

QPIG is an aluminium producer in Qinghai Province which Lianhe Global considers as a for-profit business entity. It is owned and controlled by Qinghai Provincial State-owned Assets Supervision and Administration Commission ("SASAC") according to the company's 2018 interim financial filing. Hence, Lianhe Global classifies QPIG as an SOE rather than an LGFV.

We believe this is a typical case of misnomer in which the company's name Qinghai Provincial Investment Group may give investors the impression or suggestion of being an LGFV.

How does Lianhe Global differentiate between SOEs and LGFVs?

LGFVs and SOEs are both institutions with state ownership, while LGFVs are usually directly owned or ultimately controlled by local governments. In addition, an entity to be classified as an LGFV usually acts as an extension of government functions, such as being responsible for financing and investing infrastructure construction projects and other government related activities for the region's economic development and social welfare. LGFVs are generally less profit-driven when compared with SOEs which are more market-oriented.

In most cases, Lianhe Global chooses the top-down approach for the sole or largest LGFV (which is significantly larger than the second one and hardly replaceable) within a jurisdiction as the probability of the LGFV receiving support from its local government owner is high. The LGFV usually has advantages in various aspects such as accessing to major government projects and receiving large asset transfers from the government or other LGFVs and significant financial subsidies.

When there are several LGFVs operating under the same administrative government, we mainly look at each LGFV's contribution to the local economy, its business monopoly, and the impact of its failure to the region. The top-down approach may be considered if an LGFV has demonstrated strong importance to the local government and the region's economy. Otherwise, the bottom-up approach would be adopted.

Lianhe Global applies a bottom-up approach to rate SOEs except for strategically important SOEs.

Please refer to Appendix I or question#7 of “Offshore Investors’ Top 10 Questions about the Credit Profiles of Chinese Bond Issuers” published on 29 January 2019. This report is available on our website: https://lhratingsglobal.com/wp-content/uploads/bsk-pdf-manager/Top_10_questions_20190129_37.pdf

Appendix I

Key Features of SOEs and LGFVs

	SOEs	LGFVs
Responsibility	Support important industries with national strategic importance for the economic development and social stability	Primarily act as an extension of government functions while operating some market-oriented businesses
Business	Aerospace, shipping, military, petroleum, chemical engineering, heavy equipment and industrial machines, electronics, non-ferrous metals, etc.	Land development, infrastructure construction, water, heating, public transportation, etc.
Operation	Market-oriented, responsible for their own profits and losses	Rely on earnings from profitable businesses and/or government subsidies to support daily operations
Profit target	Profit focus to preserve and increase the value of state assets	Not profit focus but mainly to support local governments’ policies and missions
Staff size	Generally large	Relatively small

Source: Lianhe Global

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