中証鵬元國際
CSPI Ratings

Mudanjiang City Investment Group Company Limited Credit Report

Ratings

Issuer Rating

LT Issuer Credit Rating	BB+
Outlook	Stable

Content

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Overview

- CSPI Ratings has upgraded Mudanjiang City Investment Group Company Limited's (MDJCIG) global scale long-term issuer credit rating (LTICR) to 'BB+' from 'BB'. The outlook is stable.
- MDJCIG's issuer credit rating is based on a standalone credit profile of 'b-' and our assessment that its parent, Mudanjiang State-owned Assets Investment Holdings Company Limited (MDJSAI), has an almost certain willingness to provide extraordinary support in the event of financial distress. MDJSAI is wholly-owned by the Mudanjiang State-owned Assets Supervision and Administration Office (MDJSASAO) and its credit profile is linked to that of the Mudanjiang city government. MDJCIG's rating is based on the perspective of parent support, and is underpinned by its parent MDJSAI's almost certain willingness to support it and its leading position in Mudanjiang's urban construction.

Rating Outlook

- The stable outlook for MDJCIG reflects our expectation that the credit profile of the Mudanjiang city government and MDJSAI will remain stable, and that MDJCIG is able to maintain its strategic role in the development of Mudanjiang going forward.
- We would consider a rating downgrade if 1) MDJCIG's ties with its parent MDJSAI loosen from the current level; 2) the fiscal strengths of the Mudanjiang city government weaken substantially or its debt burden exacerbates tremendously; and/or 3) MDJCIG's business scopes develop into more commercial and market-driven sectors, such as commercial property development, as opposed to social welfare-oriented businesses.

  We would consider a rating upgrade if 1) the Mudanjiang city government's economic and fiscal revenue scale improves on a sustained basis; 2) MDJSAI's importance to the Mudanjiang city government increases significantly; and/or 3) there is a substantial improvement in MDJCIG's leverage and financial profile.

Financial Summary

Table 1：Financial Ratios

	2021A	2022A	2023F	2024F	2025F
Debt/EBITDA	6.6	57.2	25.9	25.8	25.9
EBITDA Interest Coverage	3.2	0.6	1.2	1.2	1.2
Gross Debt/Capitalisation	34.6%	35.0%	35.2%	35.4%	35.6%
FFO/Debt	15.2%	1.9%	3.4%	3.4%	3.4%
OCF/Debt	5.8%	1.6%	-2.0%	-1.0%	-2.1%
FCF/Debt	10.0%	4.3%	0.7%	1.7%	0.7%
ROIC	5.2%	0.5%	1.2%	1.2%	1.2%

Sources: Company, CSPI Ratings' estimates

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Key Rating Drivers

Credit Strengths

- **Executor of Mudanjiang government's blueprint for municipal construction and development.** MDJCIG engages in Mudanjiang's economic development by being the city's most important platform for urban construction, including affordable housing and infrastructure, land development and municipal asset operations. The Company has over 80% market share in Mudanjiang's affordable housing development projects. As such, a failure in MDJCIG's operation will have a significant impact on the city's urban development progress and hurt its economic growth. We assess that in the event of financial distress, the Mudanjiang government, through MDJSAI, is willing to take the necessary measures to support MDJCIG and ensure that the economic development of the city is not affected.

- **Long-standing track record of government support.** MDJCIG received government subsidies of various types, amounted to RMB538 million, RMB964 million and RMB0.17 million, respectively, in 2020, 2021 and 2022, and accounted for up to 93% of the Company's net profit. In addition, MDJCIG also received capital injections, land and asset allocations, and other non-operational revenue from the Mudanjiang government to support the Company's operation and development. We believe that the Mudanjiang government will continue to support MDJCIG, through MDJSAI, to facilitate the city's land development.

- **Strong ties with the government via the parent.** MDJCIG is Mudanjiang's second largest local government financing vehicle (LGFV) in terms of revenue and total assets. It is 83.6% owned by its parent MDJSAI, which is wholly-owned by MDJSASAO. Both MDJSAI and MDJCIG's boards of directors and senior management team are appointed by the Mudanjiang Party Committee and their scope of business is approved by MDJSASAO. All of these strengthen the supervision and collaboration among the Mudanjiang city government, MDJSAI and MDJCIG.

- **Modest Mudanjiang's creditworthiness with higher-level government support.** As a prefecture-level city located in the southeast part of Heilongjiang province, Mudanjiang is within the 'golden triangle' of the Chinese, Russian and Korean peninsula and an important city in northeastern China. While the city's self-sufficiency in its budgetary revenue has been relatively low, higher-level governments have been giving consistent and strong fiscal support to Mudanjiang and this significantly augments the city's revenue scope. To elaborate, support from higher-level governments has accounted for over 70% in Mudanjiang's budgetary revenue for the past few years. As a consequence, the city had a resilient 14.6% revenue growth in 2022 despite contracted land sales, while its fiscal deficit remained modest at 10.9%.

Credit Weaknesses

- **High leverage, low profitability and weak cash flow.** We estimate that MDJCIG's net debt to adjusted EBITDA ratio will stay above 25x in the next few years. The Company's gross profit margin is thin as most of its projects are awarded by the Mudanjiang government on a not-for-profit basis. On completion of project construction, the city government will buy back the assets for a price that generally includes a 15% mark-up over the total development cost. Besides, the long period of receivables collection also leads to weak cash flows from operations.

- **Tight liquidity.** We expect MDJCIG's liquidity to be tight with its 12-month forward cash flow liquidity ratio of 0.9x. We believe the Company's liquid assets on hand and expected funds from operations are insufficient to fulfil all cash outflow requirements if all short-term debt payments have to be repaid without renewal. MDJCIG's current assets are mostly land that is classified as inventories, and receivables to government-related entities, both of which are not very liquid. The Company will require significant financing to cover its debt payments and maintain its business operations. However, we expect financial pressure on its interest payments to be low when the government and parent support is sufficient.

Table 2： Key Credit Metrics

(RMB mn)	2021A	2022A	2023F	2024F	2025F
Financials and Profitability					
Revenue	1,601.7	1,717.5	1,838.3	1,893.5	1,950.3
EBITDA*	1,101.2	130.4	295.1	300.2	305.4
EBITDA Margin*	68.8%	7.6%	16.1%	15.9%	15.7%
Return on assets (ROA)	4.2%	0.5%	1.0%	1.0%	1.0%
Return on invested capital (ROIC)	5.2%	0.5%	1.2%	1.2%	1.2%
Cash Flow Measures					
Funds from operations (FFO)	1,108.7	138.9	259.6	264.3	269.4
Operating cash flows (OCF)	423.3	121.7	-152.4	-76.4	-164.2
Free cash flow (FCF)	728.7	317.6	52.1	135.0	54.0
Discretionary cash flow (DCF)	728.7	315.2	52.1	135.0	54.0
Balance Sheet Measures					
Cash and liquid investments	112.9	78.9	104.1	205.8	220.2
Excess cash	68.9	31.4	53.5	153.6	166.4
Total debt	7,375.8	7,483.8	7,683.8	7,883.8	8,083.8
Adjusted debt	7,306.9	7,452.4	7,630.4	7,730.2	7,917.5
Total capitalisation	21,314.9	21,373.9	21,814.5	22,258.8	22,707.4
Leverage Measures					
Debt/EBITDA	6.6	57.2	25.9	25.8	25.9
EBITDA/Interest expense	3.2	0.6	1.2	1.2	1.2
Gross debt/Capitalisation	34.6%	35.0%	35.2%	35.4%	35.6%
FFO/Debt	15.2%	1.9%	3.4%	3.4%	3.4%
OCF/Debt	5.8%	1.6%	-2.0%	-1.0%	-2.1%
FCF/Debt	10.0%	4.3%	0.7%	1.7%	0.7%
DCF/Debt	10.0%	4.2%	0.7%	1.7%	0.7%
Debt/Equity	52.4%	53.7%	54.0%	53.8%	54.1%
FFO/Cash interest expense	3.3	0.6	1.1	1.1	1.0

* EBITDA and EBITDA margin include government operational subsidies
Source: Company, CSPI Ratings' estimates

Parent and Government Support

Almost certain parent incentive to support its core subsidiary

We believe that MDJSAI has an almost certain willingness to support MDJCIG in the event of financial distress, given the Company's strategic importance to its parent. Hence, we assign an issuer credit rating for MDJCIG in line with our issuer credit rating for MDJSAI. We consider MDJSAI to be a government-related entity (GRE) controlled and directly supported by the Mudanjiang city government. While we do not consider MDJCIG a directly state-controlled SOE, we regard it as the most strategically important subsidiary of MDJSAI and believe that the Mudanjiang city government will support the Company through MDJSAI and other means.

MDJSAI, wholly-owned by MDJSASAO, owns 83.6% of MDJCIG as at the end of 2022. In 2022, MDJCIG accounted for 53% of MDJSAI's total assets and 55% of its total revenue. More importantly, MDJCIG accounted for 137% of MDJSAI's profit in 2021-22 and we expect such a crucial earnings contribution to continue, thus justifying our view of almost certain parent support.

Strong business connection with the Mudanjiang government

MDJCIG's operations and prospects are significantly affected by the Mudanjiang city government's budgets and policies, in particular those that relate to urban and public infrastructure construction as well as land development, which represent almost all of the Company's business. Likewise, most of MDJCIG's revenue directly or indirectly comes from the Mudanjiang city government and its related entities. To elaborate, almost all of the accounts receivable of the Company were from the local government/local finance bureau or other government related parties. Being the second largest LGFV ultimately owned by MDJSASAO (with its parent being the largest) with a focus on urban construction and land management in Mudanjiang, MDJCIG is designated to carry out the city government's directions, plans and policies for municipal development. In fact, the

Company has over 80% market share in Mudanjiang's affordable housing development projects. As such, the business connection between MDJCIG and the Mudanjiang government is strong, in our view.

Senior management appointment and decision involvement signifies strong ties with the Mudanjiang government

As MDJCIG's indirect controlling shareholder, MDJSASAO, together with other entities in the Mudanjiang city government, is closely involved in key investment and operation decisions of the Company. For instance, MDJCIG's board of directors and senior management team are appointed by the Mudanjiang Party Committee and the scope of business is approved by MDJSASAO. The Company's major investment projects, financing projects or guarantees, development strategies and financing risk control measures need to be approved by the Mudanjiang city government and MDJSASAO. The city government and MDJSASAO also supervise MDJCIG's corporate affairs such as reorganisation and restructuring, major asset changes, and registered capital changes. All in all, we see a high degree of direct and indirect government control over the Company's operations, which are highly interwoven with key government functions. Since MDJCIG plays a crucial role in Mudanjiang's urban construction, the Company's ties with the government should be viewed on a sustainable basis.

Continuous asset injections and financial subsidies from Mudanjiang government

We believe that MDJSAI and MDJSASAO will continue to support MDJCIG's operation by various means. For instance, the Company received government subsidies of various types that amounted to RMB538 million, RMB964 million and RMB0.17 million, respectively, in 2020, 2021 and 2022, and accounted for up to 93% of its net profit. Besides, MDJCIG also received capital injections, land and asset allocations, and other non-operational revenue from the Mudanjiang government to support the Company's operation and development.

Credit Profile of Heilongjiang Provincial Government and Mudanjiang Municipal Government

CSPI Ratings affirmed the global scale LTICR of 'A' to the Heilongjiang provincial government in August 2022, reflecting the province's reasonable liquidity conditions but sluggish economic progress and exacerbating debt pressure. The outlook of the ratings is stable.

Heilongjiang: Reasonable liquidity conditions but sluggish economic progress and exacerbating debt pressure

Heilongjiang is the northernmost and easternmost province of China (AA, Stable). The province is bordered by Jilin Province to the south and Inner Mongolia to the west, and shares a border with Russia to the north and east. Among Chinese provincial-level administrative divisions, Heilongjiang is the sixth-largest by total area at 473,000 square kilometres. It has a population of 31.0 million in 2022. Heilongjiang has significant agricultural production and natural resources such as timber, oil and coal.

The province's budgetary revenue strength is well bolstered by the central government's fiscal support and measures. The increasing refunds and transfers from the central government have become the pivotal part of Heilongjiang's budgetary revenue, comprising around 70% of its revenue in 2022. Hence, the province has a sizeable budgetary revenue scale estimated at RMB523.8 billion in 2022. In our view, the central government should continue to support Heilongjiang's financial profile over the next few years, as the province is renowned for its crucial resources and cereal supply base in the country.

The liquidity conditions of the Heilongjiang provincial government remain reasonable. With the substantial fiscal grants from the central government, the province's fiscal deposit has incrementally grown to RMB107.2 billion at the end of 2022, which is a considerable amount compared to its debt and interest obligations, implying that the government has accumulated sufficient liquid resources to tackle any potential challenges.

In terms of economic growth, Heilongjiang has been a relatively mediocre performer in recent years, hindered by population contraction, resource exhaustion and economic structure defects. With several years of sluggish economic growth, the province registered a relatively low GDP per capita of RMB51,310 at the end of 2022. Although the government has strived to revive the local economy through a variety of measures, the revitalisation process has appeared to be ineffective so far.

Debt pressure is weighing on the province's slow-growing economy. The fiscal stimulus policy since 2020 to cushion the impact of the coronavirus pandemic has exacerbated Heilongjiang's budgetary imbalance, which in turn has piled up debts. Compared to the province's GDP scope, its debt burden is relatively heavy with an estimated broad debt of RMB828 billion (including direct debt and hidden debt) by the end of 2022. The province's debt to GDP ratio was 52% in 2022 and is expected to rise further in the next few years.

Mudanjiang: Weak economic base with modest fiscal deficit

Mudanjiang is a prefecture level city under the jurisdiction of Heilongjiang Province and is also an important central city and scenic tourism city in the southeast of Heilongjiang Province approved by the State Council. The city is in the centre of the northeast Asian economic circle, adjacent to Russia. Mudanjiang is an important strategic pivotal point of the "China Mongolia Russia economic corridor" and the Longjiang Silk Road belt, and a bridgehead and hub for China's opening up to Russia along the border. The city manages over four municipal districts, five county-level cities and one county, with a total area of 40,600 square kilometres. According to the seventh census, the residential population of Mudanjiang city was 2.29 million in 2021.

Mudanjiang, like many of its peers in Heilongjiang province, has been afflicted by the obsolete economic structure, outflowing population, exhausting resources and a lack of incremental investment and businesses over the past few years. The downward pressure on its economy is considerable. The city's economy expanded 6.1% in 2021 as a result of the nation-wide economic recovery and slowed to 3.0% in 2022 due to increasing downward pressure on its economy. The growth rate is slower than that of most of its peers. The city's GDP per capita amounted to RMB40,505 in 2022, indicating a relatively weak economic foundation. The prospect of Mudanjiang's economic growth remains vague, and the ongoing political event in Russia have added to the uncertainties since trade with Russia has accounted for a good part of the city's economy. All in all, we expect Mudanjiang's economic growth to be around 5% in 2023 and the next few years.

The Mudanjiang government's general public revenue was trimmed by the nation-wide tax cuts in 2019 with a contraction of 1.2%, while general public expenditure growth remained relatively intense. Subsequently, the city's deficit increased substantially in 2019. In 2020, with the enhancement of refunds and transfers from higher-level governments, the general public revenue of the government stabilised, helping the deficit to decrease to a degree. While the general public revenue of Mudanjiang declined slightly in 2021 as a result of the weakened fiscal support, the general public expenditure was effectively curtailed, causing the city's deficit to narrow further in 2021. The government's budgetary balance to revenue ratio continually improved in 2022 due to a substantial boost of fiscal transfer payment that has been a bulk of Mudanjiang's budgetary revenue for many years. In general, the city's budgetary balance has been in a relatively healthy state and is likely to continue in the next few years.

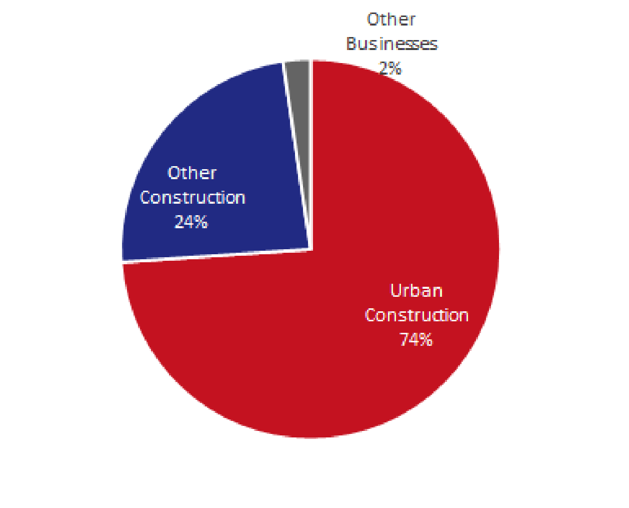
Mudanjiang's debt-to-revenue ratio was 181% as of the end of 2022, which is relatively high for a local government in China, as the government has been ramping up its debts in a bid to fuel its infrastructure investment and other fiscal expenditure. The debt-to-GDP ratio is calculated to be 64% in 2022, pointing to high leverage compared to its peers. While the Mudanjiang government's budgetary revenue is somehow sustained by the massive fiscal support offered by higher-level governments, the economic size of the city remains small, and the debt burden on its economy appears stretched. Nevertheless, we expect Mudanjiang's debt growth to slow considerably in 2023 as the strengthening fiscal help from higher-level governments should bolster the city's fiscal expansion this year, without the necessity to tap into excessive debts.

The deposit to interest payment ratio of Mudanjiang is assumed to be 148% in 2023 and 137% in 2024, reflecting barely enough fiscal deposits to cover interest obligations. As at the beginning of 2020, the government recorded a fiscal deposit of RMB2 billion which is presumed to continue growing moderately considering robust fiscal support from higher-level governments. But the fiscal deposit looks relatively thin compared to its sizable debt scale. Nevertheless, the debt ceiling of Mudanjiang has been constantly rising, giving incremental leeway for the city to borrow. In addition, the fiscal gaps between the city's revenue and expenditure are expected to stabilise, which means that the liquidity needs should remain relatively moderate in the next few years. In general, we believe Mudanjiang's liquidity coverage capacity is sufficient.

Business Profile

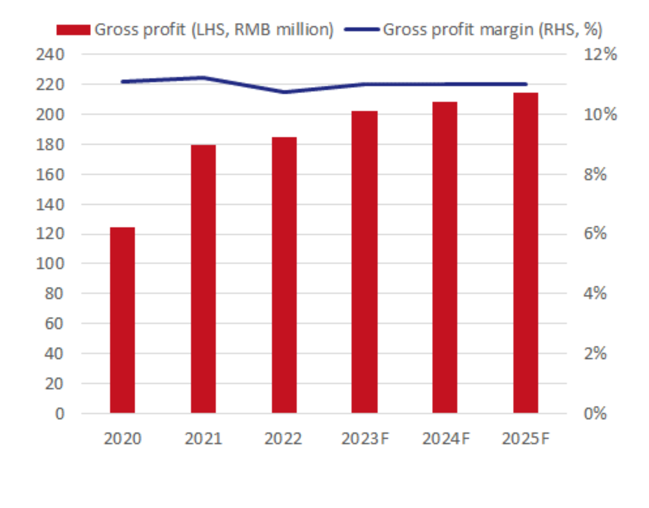
MDJCIG engages in Mudanjiang's economic development by being the city's most important platform for urban construction, including affordable housing and infrastructure, land development and municipal asset operations. The Company has over 80% market share in Mudanjiang's affordable housing development projects. At the moment, MDJCIG primarily focuses on three business segments, namely (i) urban construction, (ii) other construction and (iii) other businesses.

Exhibit 1: MDJCIG's revenue mix (2022)



Source: Company

Exhibit 2: MDJCIG's gross profit trend



Source Company

(i) **Urban Construction**: MDJCIG's urban construction business is divided into two sub-segments, namely urban infrastructure construction and affordable housing development. As the primary urban construction platform authorised by the Mudanjiang government, the Company undertakes various urban infrastructure construction projects in the city, such as roads, bridges, buildings, parks, intelligent bus systems, wastewater pumping storage power stations and electrification projects. Regarding MDJCIG's affordable housing development projects, the Company is typically assigned or awarded these projects by the Mudanjiang government under a repurchase agreement, and is responsible for obtaining financing and approvals, organising relocation and resettlement of shanty areas, and managing overall project and finance tasks. The completed affordable housing projects are mainly in the form of resettlement housing and public rental housing, which are sold and transferred to the city government or its designated state-owned or controlled enterprises.

Exhibit 3: MDJCIG's construction projects as of 31 March 2023 (RMB million)

Project names	Planned total investment amount	Invested amount
Million Square-Metre Affordable Housing Project – Yuejiang City（百万平米安置房项目-阅江城）	1,000	756
Million Square-Metre Affordable Housing Project – Yinlong Bay（百万平米安置房项目-银龙湾）	376	355
Million Square-Metre Affordable Housing Project – Xichenglvdu（百万平米安置房项目-西城绿都）	192	151
Yipinshangcheng Shanty Town Remake Project（逸品尚城棚户区改造项目）	719	610
Yixin Garden District Public Rental Housing Project（怡馨园小区公租房项目）	830	976
Fenghuang City Group A Phase Two（凤凰城 A 组团二期）	1,449	797
Fenghuang City Phase Three（凤凰城三期）	854	565
Beiyue City Phase Two（北悦城二期）	374	286
Natural Gas Project（燃气项目）	55	20
2022 Drainage Project（2022 排水项目）	309	202
2023 Drainage Project（2023 排水项目）	408	0
Total	**6,566**	**4,718**

Source: Company, CSPI Ratings

(ii) **Other Construction**: MDJCIG offers construction and engineering services for external clients and partially provides support to the infrastructure projects that the Company undertakes. Major projects of MDJCIG's construction business include the construction of the Jiangnan Campus of Lixin Primary School of No. 4 Middle School (四中立新小学江南校区工程), the Phase II renovation project at the shanty areas of Beiyue City (北悦城棚户区改造建设专案(二期)工程), the revocation project at Human Resources Industrial Park (人力产业园装修项目) and the style and environment improvement project at Feilongtan (飞龙潭风貌环境提升专案), among others.

(iii) **Other Businesses**: MDJCIG's other businesses include its housing-related business and property leasing business. For the housing-related businesses, the Company participates in first- and second-hand housing sales, distribution and exhibition business. MDGCIG also provides operation services for those municipal assets that it has constructed.

Financial Profile

Prudent financial policy and low profitability

MDJCIG's financial policy is closely monitored by its parent MDJSAI, and MDJSASAO. For instance, the Company's major investment projects, financing projects or guarantees, and the control of financing risks need to be approved by the Mudanjiang city government and MDJSASAO. We believe that MDJSASAO has been and will continue to strictly follow the policies initiated by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), and closely monitor MDJSAI's and MDJCIG's financial leverage and operations.

In terms of financing, MDJCIG always ensures its funding sources are diverse, including financial institutions and capital markets. The Company also optimizes its debt financing structure and maintains its debt-to-asset ratio at an unstretched level. Regarding MDJCIG's accounts receivable, these are mainly derived from infrastructure development and the Company has client credit risk and warning systems to lower cash flow and bad debt risks.

MDJCIG engages in Mudanjiang's economic development by being the city's most important platform for urban construction, including affordable housing and infrastructure, land development and municipal asset operations. The Mudanjiang city government has entered into repurchase agreements with the Company for various urban infrastructure construction and affordable housing development projects, which provide 15% commissioned management fees in addition to repayment of the actual costs. Yet with a slow receivables turnover rate, i.e., high invested capital, we expect MDJCIG's return on invested capital (ROIC) to remain low at about 1.2% over the next three years.

Weak financial leverage given limited debt-servicing capability

MDJCIG's leverage profile is considered weak due to its relatively high debt level versus the Company's capability to service its debt over the course of our measurement. MDJCIG's debt-to-EBITDA ratio was at a high level of 57x in 2022, implying challenges in paying up the debt balance solely by EBITDA, while the average EBITDA interest coverage ratio of 1.8x in 2020-22 indicates that the Company's EBITDA is just slightly more than sufficient to meet its interest expense obligations. On the other hand, MDJCIG's debt level is not stretched versus its asset level, with its gross-debt-to-total-capitalisation ratio at 35% in 2022. While we believe the Company's debt level will rise when it continues to put in capital on construction projects, we do not expect immediate worsening of leverage risk.

We view MDJCIG's debt structure as neutral because the Company's short-term debt exposure is limited at less than 10% of total debt outstanding.

We assess MDJCIG's foreign exchange risk as neutral as most outstanding debts are denominated in Renminbi. In addition, while the interest rate exposure of the Company's bank loan is largely priced in variable interest rates, the annual interest rates are on a relatively narrow spectrum. We therefore do not foresee significant interest rate risk.

Liquidity

We evaluate MDJCIG's liquidity as fairly weak in the near term after considering both the quick ratio and the cash flow liquidity ratio. The Company's 12-month forward-looking cash flow liquidity ratio is estimated at 0.9x (in 2023), deemed marginally inadequate to handle the cash outflow in the next 12 months.

Nevertheless, MDJCIG's liquidity should be supported by MDJSAI and the Mudanjiang city government. Besides, banks and other financial institutions should be willing to offer the Company concrete loan facilities than other normal commercial companies. These supports will jointly beef up the actual liquidity state of MDJCIG. To elaborate, the Company had total credit facilities of RMB6.41 billion as at the end of March 2023, of which RMB1.28 billion had not been utilised, according to the management.

We made the following key assumptions when assessing MDJCIG's liquidity:

- Estimated cash and short-term investments of RMB79 million/RMB104 million in 2023/24;

- Estimated funds from operations inflow of RMB260 million/RMB264 million in 2023/24;
- Estimated working capital outflow of RMB381 million/RMB309 million in 2023/24;
- Estimated short-term debt repayments of RMB391 million/RMB491 million in 2023/24.

Company Background

With its predecessor established in 2000, MDJCIG is an important investment and financing entity and a large state-owned operation platform in the Mudanjiang city of Heilongjiang province. The Company is the main entity authorised by the Mudanjiang city government and is primarily responsible for the construction and development of the majority of urban construction projects in the city. MDJCIG has over 80% market share of Mudanjiang's affordable housing development projects, covering all projects except for Jiangnan New Town.

MDJCIG primarily operates in the following four business segments: (i) urban construction, (ii) other construction and (iii) other businesses.

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Rating Scores Summary

Business Profile	**Fairly Weak**
Industry and Operation Risk Profile	Fairly Weak
Macroenvironment Risk	Low
Financial Profile	**bb-**
Preliminary Leverage Profile	bb
Cash Flow Variations	Neutral
Debt Structure and Financial Policy	Neutral
Financial Volatility	Neutral
Investment	Neutral
Final Leverage Profile	bb
Profitability	Weak
Indicative Credit Score (ICS)	**b+**
Adjustment Factors	
Corporate Structure and Governance	Neutral
Liquidity	Fairly Weak
Supplementary Analysis	Neutral
Standalone Credit Profile (SACP)	**b-**
External Support	
Parental Support	Almost Certain
Government Support	NA
Issuer Credit Rating (ICR)	**BB+**

Related Criteria

General Corporate Rating Criteria (15 March 2018)

Government-Related Entities Rating Criteria (31 August 2018)

Corporate Financial Adjustments and Ratio Definitions (7 May 2018)

General Principles of Credit Rating (21 November 2017)

Criteria Deviation

In this rating assignment, the committee adopted different weightings when assessing the leverage profile of the rated entity, which is a deviation from the weightings set by our General Corporate Rating Criteria (31 August 2018). The committee believes the leverage ratios set by our general corporate criteria are mostly cash flow leverage focused and do not properly reflect the true financial leverage risk of the local government financing vehicles in China which should be assessed from a balance-sheet leverage perspective, the initial weightings of '30%, 30%, 20%, 20%' for 'Debt/EBITDA, EBITDA Interest Coverage, Gross Debt to Capitalisation, FFO/Debt' were modified to '25%, 25%, 50%, 0%' for 'Debt/EBITDA, EBITDA Interest Coverage, Gross Debt to Capitalisation, FFO/Debt'.

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Solicited ratings – disclosed and results not affected

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