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S&P Global

China Ratings

A Closer Look at China's LGFVs: Anhui

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Key Takeaways

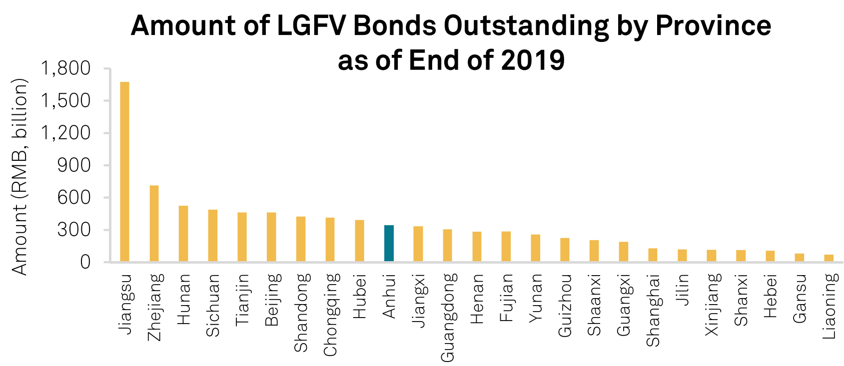
- We have carried out a desktop analysis of 88 local government financing vehicles in Anhui Province, and found median indicative issuer credit quality to be slightly higher than the national median for LGFVs.
- Clear differences exist between different regions of Anhui when it comes to indicative capacity to support LGFVs. Hefei, the provincial capital, has higher indicative support capabilities than other regions of Anhui. In some other parts of the province, economic development often leans on a single resource or company, which could impact indicative capacity to support LGFVs.
- Anhui's vehicles are primarily engaged in traditional LGFV areas of business. The proportion of vehicles engaged in public utilities or commercial business is relatively lower than in other comparable provinces.
- By referring to provinces with similar debt burdens, Anhui compares favorably in terms of the number and quality of listed state-owned companies, which provide it with flexibility for resolving hidden debt. Since most of these assets are under the jurisdiction of the provincial government, a coordinated response from provincial authorities could be a key factor when considering Anhui's ability to resolve hidden debt.

To get a full picture of the credit situation of Anhui's LGFVs, we conducted a desktop analysis of 88 different vehicles, using publicly available information. We included LGFVs at the city-level and below and subway companies but excluded provincial level LGFVs (including transportation infrastructure firms, investment holding companies and utility companies). The LGFVs in our sample represent close to 90% of all of Anhui's LGFVs with public bonds outstanding and are located in 15 prefecture-level cities. We believe that the sample is representative and provides a good gauge of the indicative credit conditions of Anhui's LGFVs.

Local government support is generally the most important factor we consider when analyzing the indicative credit quality of LGFVs. During this study, we looked at the indicative capacity to support LGFVs across various cities in the province, as well as LGFVs' varying levels of importance to their regional government.

We also looked at what advantages Anhui has with regards to resolving hidden debt, in terms of state-owned assets.

Chart 1



Note: The scope of "LGFV bonds" is defined by Wind.
Source: Wind, S&P Global (China) Ratings.

About This Article

S&P Ratings (China) Co., Ltd. (S&P China) has conducted a desktop analysis of a selection of entities based in the relevant region. We have chosen these entities based on their asset sizes, representativeness of most regions and availability of public information. The analysis contained herein has been performed using S&P China Methodologies. S&P China Methodologies and analytical approaches are intended specifically for use in China only, and are distinct from those used by S&P Global Ratings. An S&P China opinion must not be equated with or represented as an opinion by S&P Global Ratings, or relied upon as an S&P Global Ratings opinion.

This desktop analysis has been conducted using publicly available information only, and is based on S&P China's methodologies for corporates. The analysis involves a desktop application of our methodologies to public information to arrive at a potential view of credit quality across sectors. It is important to note that the opinions expressed in this report are based on public information and are not based on any interactive rating exercise with any particular entity. The opinions expressed herein are not and should not be represented as a credit rating, and should not be taken as an indication of a final credit rating on any particular entity, but are initial insights of potential credit quality based on the analysis conducted. This desktop analysis does not involve any surveillance. The opinions expressed herein are not and should not be viewed as recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security.

We have conducted this desktop analysis on individual corporates and present the results contained herein at an aggregate group level. The different sections of this research show the statistics and performance of different groups of entities and the market more broadly against the metrics we generally consider most relevant under our methodologies.

Given the desktop nature of this analysis, and that we have not conducted an interactive review with any particular entity, we may have made certain assumptions in lieu of confirmed information and where relevant we may also have attempted to consider any possibility of parent, group, government or other forms of potential support, to inform our view of potential credit quality. S&P China is not responsible for any losses caused by reliance on the content of this desktop analysis.

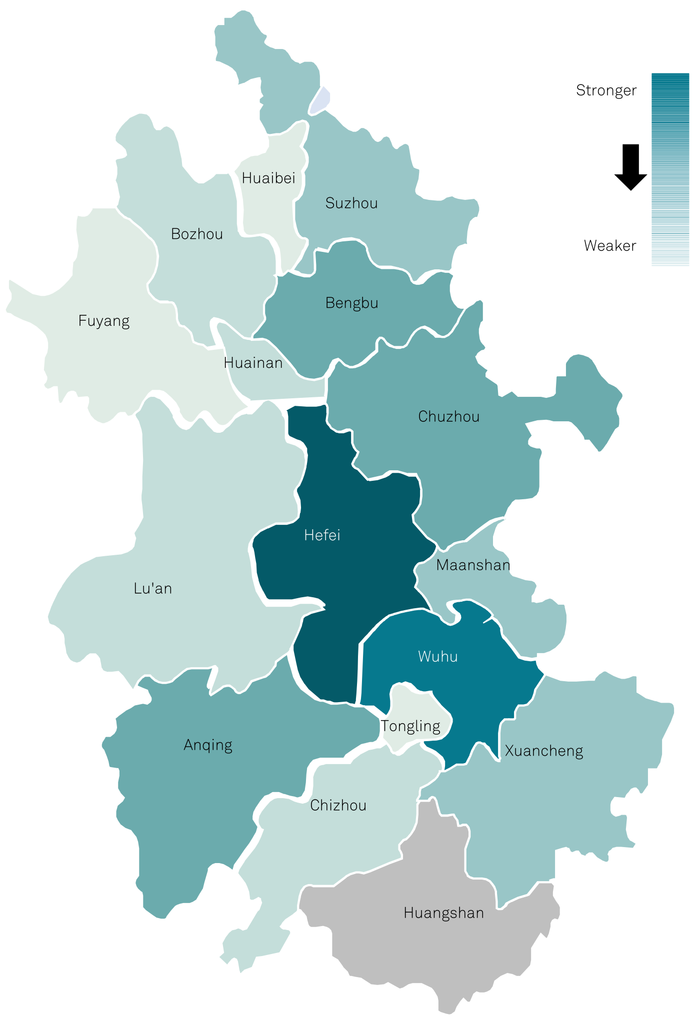
Indicative Support Capacity: Anhui's Polarized Regions

We believe that even within one single province, there can be significant differences in indicative support capacity among various levels of local governments. **When looking at Anhui Province, we find that those varying levels of indicative local government support diverge to the extent that they are at polar opposites.** Hefei, which is the provincial capital, has a relatively light debt level and good liquidity, and as such is in a better position than other cities in Anhui in terms of its indicative ability to support LGFVs. But for cities like Tongling, Maanshan, Huainan, Chizhou, Huaibei, Bozhou, Fuyang and Liu'an, their relatively weaker economic and financial performance or higher debt levels could all potentially lead to local authorities being comparatively weaker in terms of their indicative support capacity. In 2019, Hefei's GDP reached around 940 billion RMB, while Wuhu's GDP stood at 360 billion RMB. These two cities accounted for 35% of total GDP in the province.

Anhui's cities are poles apart in terms of indicative support capacity, with Hefei in a better position than other areas of the province.

Chart 2

Comparing Indicative Support Capacity for LGFVs Across Cities in Anhui



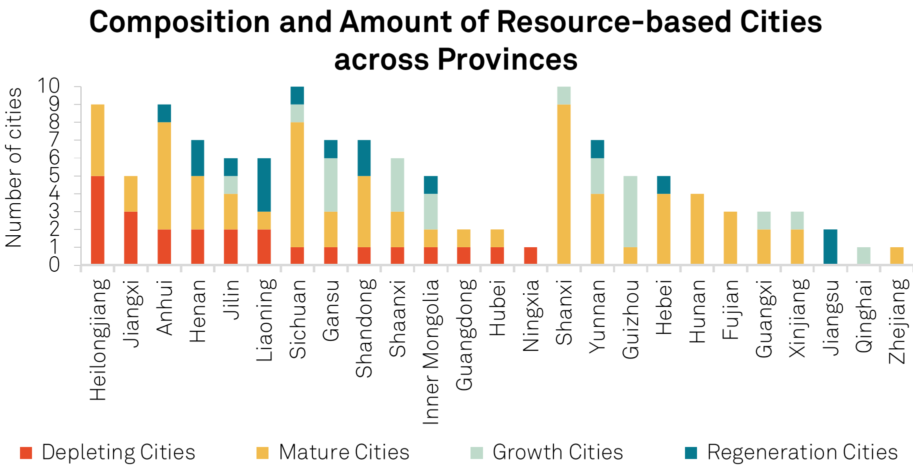
Note: Data unavailable for areas in grey.

Source: S&P Global (China) Ratings.

Anhui is a classic example of a province with a relatively high concentration of resource-based cities, with more of such cities than many other provinces in China. However, some of these cities have already had their resources classified as "depleting" by national authorities. Local economies are under pressure to transform their economic models, and in our view, this situation may potentially affect the ability of local governments to provide support. Compared with other provinces nationwide, Anhui has a high number of cities in which resources are classified as "depleting".

For certain cities with depleting resources, the pressure to transform the local economy potentially affects the indicative capacity of local authorities to provide support.

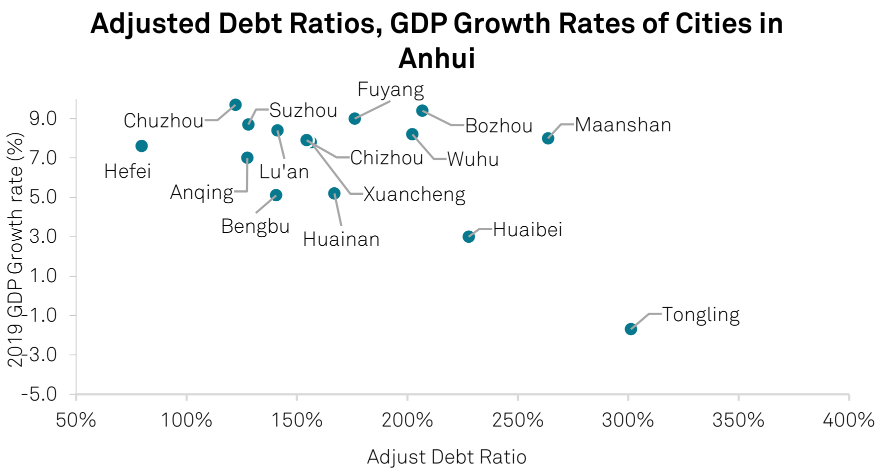
Chart 3



Source: State Council "National Planning on Sustainable Development of Resource-based Cities (2013–2020)," November 11, 2013.

We believe that economic development in some areas of Anhui relies heavily on a single resource or single company, which may affect the stability of their indicative support capacity. The industrial structure of Huainan and Huaibei is more geared towards coal, while metal smelting is the primary industry of Tongling and Maanshan. They are typical cases of cities in Anhui structured around one industry. A major price fluctuation in coal or metals could affect the potential ability of these cities to support LGFVs. Currently the pace of economic growth of Huainan, Huaibei and Tongling is relatively low in the province, and Maanshan, Huaibei and Tongling have relatively high debt burden in the province.

Chart 4

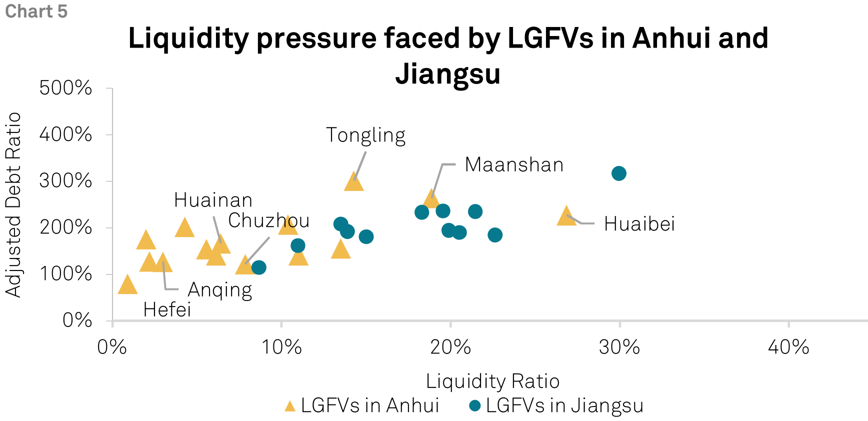


Source: Wind, S&P Global (China) Ratings.
Note: Adjusted Debt Ratio = (2019 year end gov. debt + adjusted LGFV debt)/ 2019 fiscal income.

However, we believe that refinancing pressure on most of Anhui's LGFVs is relatively controllable over the next year. For example, if compared with LGFVs across Jiangsu Province, the liquidity pressure on LGFVs in Anhui (measured by the ratio of LGFV debt maturing in the next year to total regional fiscal revenue) is generally lower. However, it should also be noted that the refinancing demand of LGFVs in Huaibei is generally greater than that of other areas of the province.

Refinancing pressure on most of Anhui's LGFVs is relatively controllable over the next year, which is a positive sign for the vehicles' indicative credit quality.

Chart 5



Source: Wind, S&P Global (China) Ratings.
Note: Adjusted Debt Ratio = (2019 year end gov. debt + adjusted LGFV debt)/2019 fiscal income; Liquidity Ratio = LGFV debt to mature within 1 year as of the end of Feb, 2020/2019 fiscal income.

Administrative level: Important factors in determining the importance of LGFVs

In addition to the ability of authorities to provide support, the importance of LGFVs to local governments is also a major factor affecting vehicles' indicative issuer credit quality. When analyzing support, we typically consider an LGFV's importance by considering factors such as: the LGFV's effective administrative level; its policy role; whether its business is not-for-profit and difficult to replace; revenue and asset scale; strategic importance, etc. Generally speaking, we believe that LGFVs with important functions and strong policy roles are of high importance to local governments.

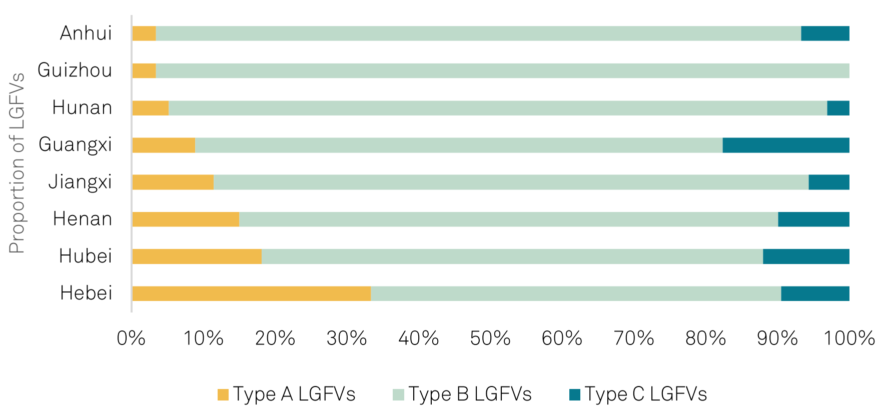
We believe that if LGFVs conduct similar operations in the same area, the importance of an LGFV to local governments may be more dependent on the vehicle's effective administrative level, a comprehensive assessment based on the government level of an LGFV`s shareholder and its transactional counterparty, and its operation area. In our view, from a support perspective, a city level LGFV is likely to be in a better position than a county or district level LGFV, as the former typically has a closer relationship with the city government, which may have better resources to provide support.

LGFVs in Anhui have similar roles and functions. Compared to other provinces with similar per capita GDP, Anhui has relatively fewer LGFVs engaged in public utilities and commercial business. Most LGFVs are mainly engaged in traditional infrastructure construction work, and most of the public utilities operations of the cities in the province are not integrated into LGFVs.

Compared with other similar provinces, LGFVs in Anhui are primarily engaged in traditional infrastructure construction work.

Chart 6

Compared to Other Provinces, Anhui LGFVs Fall Into More Traditional Business Areas



Note: Type A - Operations include not only traditional LGFV business but also some utility services; Type B - Traditional LGFV business, such as infrastructure construction and primary land reclamation; Type C- Commercial and for-profit activities like retailing, manufacturing, industrial park operation, tourism operation, commodity trading, etc.
Source: S&P Global (China) Ratings.

Indicative Issuer Credit Quality: Anhui's Polarized Cities

The median indicative issuer credit quality of LGFVs in Anhui is slightly higher than the national median for LGFVs. However, due to differences in potential support capabilities between city governments, the indicative issuer credit quality of LGFVs across different parts of the province trends towards two different directions. We believe that indicative issuer credit quality of LGFVs in Hefei is generally ahead of other cities in the province. We view that not only does Hefei have many LGFVs with indicative credit quality higher than the provincial median, but also the indicative issuer credit quality of its leading LGFVs is stronger than that of other cities in the province.

The median indicative issuer credit quality of LGFVs in Anhui is slightly higher than the national median for LGFVs.

Chart 7

Distribution of Indicative Credit Quality: Anhui LGFVs

Note: Cities are in alphabetic order. The color represents the number of LGFVs with the same indicative credit quality. The darker the color, the higher the number of entities. The dark dotted line represents the median of indicative credit quality in Anhui Province.
Source: S&P Global (China) Ratings.

Listed assets enhance Anhui's flexibility for resolving hidden debt

According to national policies and guidelines, hidden debt across the LGFV sector can be resolved according to the following methods: repayment using local fiscal budgets; debt restructuring; selling assets held by local governments; repayment using cash flow generated by LGFV projects; conversion of LGFV debt into corporate debt; and bankruptcy liquidation. Among these six methods, use of fiscal budgets and selling state-owned assets to pay off debt are typically government-led. Debt restructuring and conversion relies mainly on the participation of banks and other financial institutions.

Sourcing repayments from fiscal budgets and restructuring LGFV debt are more conventional channels for resolving hidden debt. Sourcing repayments from the operating income of LGFV projects and converting LGFV debt are more difficult steps to implement. This is because the operating income of LGFVs across various regions is usually not proportional to the scale of existing debt, and the majority of vehicles across the country are not engaged in business which generates stable cash flows. In our view, the presence of listed state-owned companies therefore offers greater flexibility to regions dealing with hidden debt, as they provide a market for sales of government-held assets.

We believe that the state-owned equity held by Anhui can provide some flexibility for resolving hidden debt. By referring to Shandong, Hubei, Jiangxi, Jilin, Liaoning and Qinghai which have similar debt levels, Anhui compares favorably in terms of the number and quality of listed state-owned companies. We have also noticed that these listed companies are mainly held by the provincial SASAC (State-owned Assets Supervision and Administration Commission). For example, the two major coal mining companies in Huainan and Huaibei are provincial-level state-owned enterprises, rather than SOEs under municipal control. As a result, we view that the unified coordination and allocation of resources by the provincial government could be one of the key factors when considering Anhui's ability to resolve hidden debt.

Related Research

A Closer Look at China's LGFVs: Hunan, April 2, 2020

A Closer Look at China's LGFVs: Zhejiang, April 2, 2020

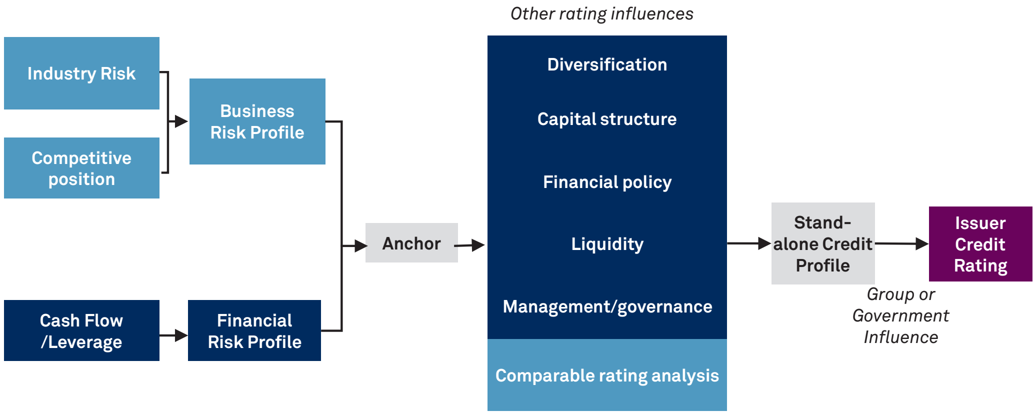
Looking Beyond the Short Term – Corporate Outlook: 2020, March 4, 2020

A Group Portrait of China's LGFVs, November 4, 2019

Looking For The Most Resilient Players, November 4, 2019

Appendix

S&P Global (China) Ratings' Corporate Methodology Framework



This report does not constitute a rating action.

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