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S&P Global
China Ratings

A Closer Look at China's LGFVs: Hebei

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Key Takeaways

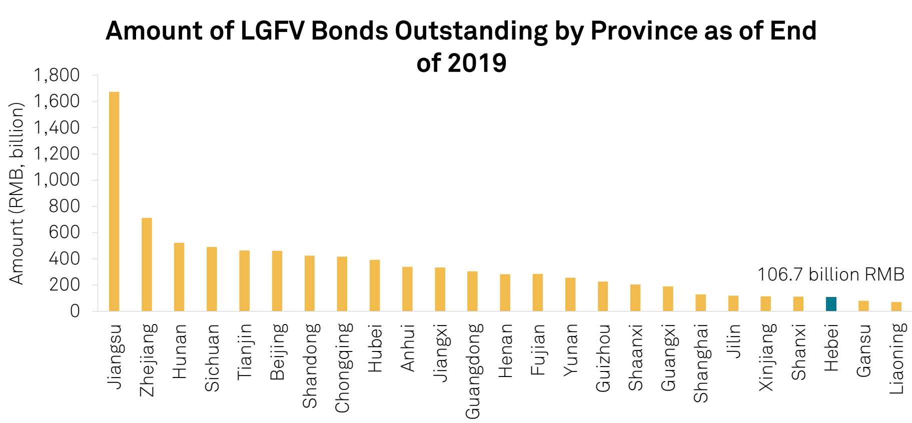
— Following a desktop analysis of 23 local government financing vehicles (LGFVs) in Hebei Province, we have found that median indicative issuer credit quality is slightly higher than the national median level for LGFVs.

— Hebei does not have a large number of LGFVs, and we regard the majority of its city-level vehicles as being very important to local authorities, with most LGFVs mandated with financing local infrastructure construction projects and carrying out non-profit functions.

To get a full picture of the overall credit quality of LGFVs in Hebei Province, we carried out a desktop analysis of 23 LGFVs across the region, using public information. Our sample includes LGFVs at the city-level and below and subway companies, but excludes provincial level LGFVs (like transportation construction companies, investment holding companies and utility companies). The entities in the sample cover 8 of Hebei's 11 prefecture-level cities, and we believe they present a comprehensive reflection of the overall indicative credit quality of LGFVs in Hebei.

In our view, local government support is generally the most important factor when we consider the indicative credit quality of LGFVs. In this report, we have analyzed the potential importance of LGFVs to municipal governments in Hebei, and the municipal governments' indicative ability to provide vehicles with support.

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.

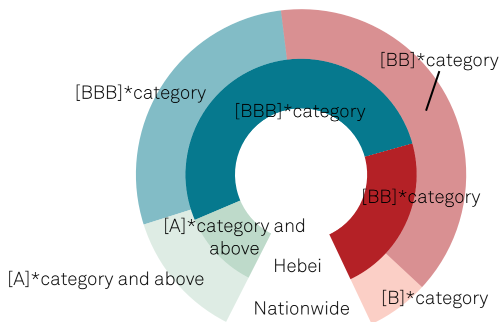
On the National Level: Hebei LGFVs' Indicative Issuer Credit Quality Narrowly Distributed

Located in northern China, Hebei covers more than 187,000 square kilometers, an area straddling the North China Plain that surrounds Beijing and Tianjin and has the Bohai Sea running along its east coast. Hebei is home to a permanent population of over 75.9 million people, 57.6% of whom live in urban areas. The province has 11 prefecture-level cities under its jurisdiction, along with 20 county-level cities, 101 counties and 47 municipal districts.

According to our analysis, the median indicative issuer credit quality of the 23 LGFVs in our sample is slightly higher than that of a sample of about 1800 vehicles at the national level. Compared to the rest of the country, Hebei has relatively fewer LGFVs with indicative issuer credit quality towards the tail end, with a larger proportion of vehicles with indicative issuer credit quality concentrated at a medium level.

Chart 2

Indicative Credit Quality: Comparing LGFVs in Hebei and Nationwide



The indicative credit quality distributions expressed in this report are only S&P China's indicative views of credit quality derived from a desktop analysis based on public information without interactive review with any particular entity or the full credit rating process such as a rating committee. 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. Curve represents the proportion of companies in the sample.
Source: S&P Global (China) Ratings.

Within the Province: Some Differentiation Among LGFVs' Indicative Issuer Credit Quality

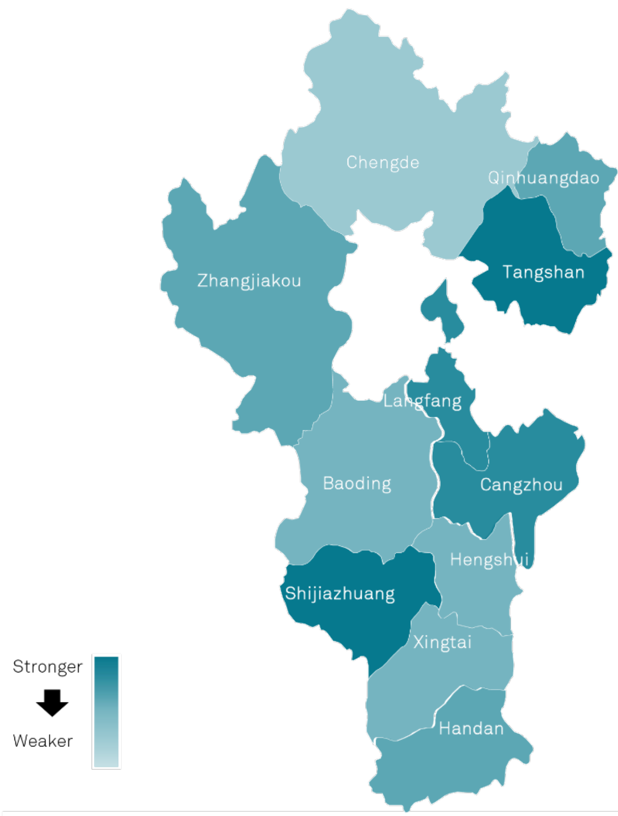
Our analysis found that where the business and financial risk profiles of LGFVs are similar, there are fewer differences between LGFVs in terms of indicative stand-alone credit quality. Differences in credit quality among LGFVs can largely be attributed to differing levels of government support. We look at local government indicative support from two angles: the indicative support capability of the local government and the LGFV's potential importance to the relevant local authority.

Analysis of Local Government Indicative Support Capacity

After looking at each city in Hebei relevant to our sample and considering factors such as economic performance, budget, debt, liquidity and financial management, we view that differences may exist in the indicative support capabilities of Hebei's prefecture-level cities. Shijiazhuang, Tangshan, Langfang and Cangzhou have stronger indicative support capacity for LGFVs. However, the governments of Hengshui, Xingtai, Baoding and Chengde have weaker indicative support capacity.

Chart 3

Varied Indicative Ability to Support LGFVs Within the Province



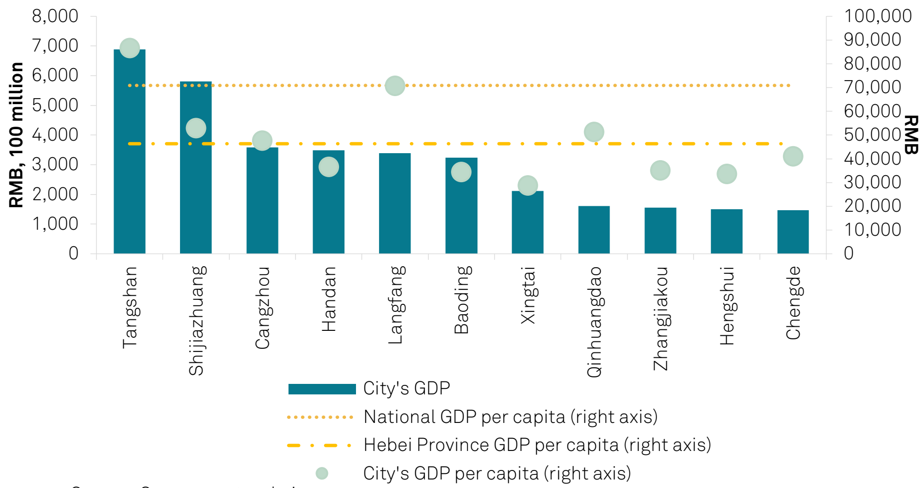
Source: S&P Global (China) Ratings.

In our opinion, differences in economic and financial strength as well as the debt levels of cities in Hebei have resulted in varying levels of indicative support capacity.

Tangshan and Shijiazhuang are the strongest economies in the region, contributing 20% and 17% to Hebei's overall 2019 GDP respectively. Tangshan is an established hub for steel production in China, and has a favorable geographic location, with Tangshan's port one of the most important on the Bohai Sea. Shijiazhuang is Hebei's provincial capital and has a well-established biomedicine industry. The tertiary sector accounts for over 60% of Shijiazhuang's industrial structure. At the lower end in the province are Qinhuangdao, Zhangjiakou, Hengshui and Chengde, all of which have smaller economic volumes.

Chart 4

2019 Total GDP, Per Capita GDP Among Hebei Cities

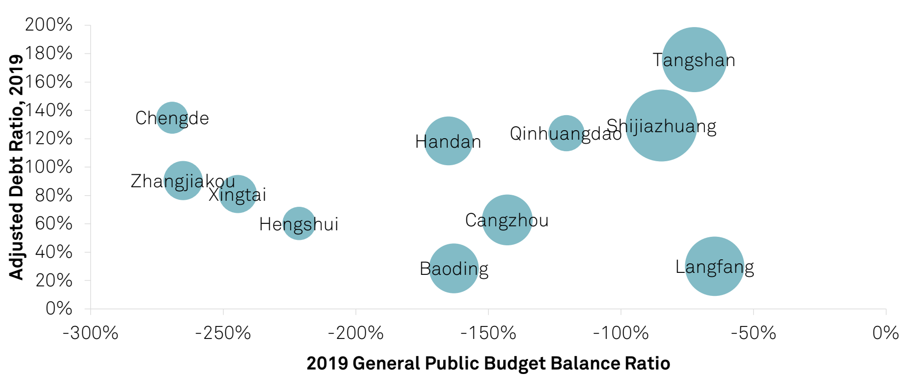


Source: Government websites.

In terms of fiscal position and debt, Shijiazhuang and Tangshan have relatively large fiscal revenues and good capacity to balance their public budgets. Both cities however have higher debt levels. Chengde's public budget balance ratio is, like Zhangjiakou and Xingtai, at a relatively weaker level. At the same time, it has a higher debt level.

Chart 5

Comparison of Hebei Cities' Budget and Debt Situations



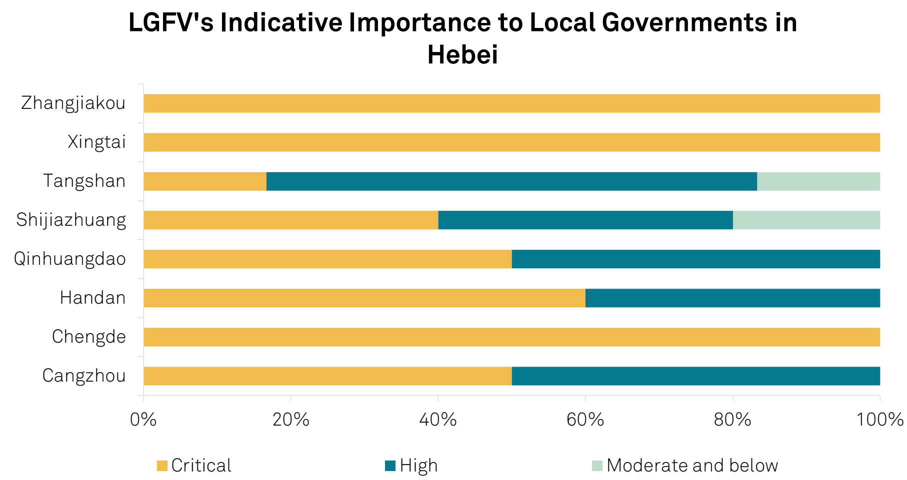
Note: Bubble size represents General Public Budget Revenue.
Adjusted Debt Ratio=(gov. debt + adjusted LGFV debt)/fiscal revenue.
Source: Government websites, S&P Global (China) Ratings.

Analysis of LGFVs' Importance to Local Governments

In addition to the governments' indicative ability to support, differences in the indicative issuer credit quality of LGFVs also depend on the LGFV's potential importance to its local government. When analyzing indicative support, we typically consider an LGFV's potential importance by looking at factors such as: administrative level; its policy role; whether its business is not-for-profit or difficult to replace; revenue and asset scale; strategic importance, etc. Even within the same district or region, these factors can, in our opinion, lead to differences in LGFVs' indicative importance to their local authority.

In Hebei, LGFV functions tend to be delegated to a relatively small number of vehicles. This is especially the case in Chengde, Xingtai and Zhangjiakou, which each only have one LGFV with publicly disclosed information. We believe that these LGFVs are of critical indicative importance to their local governments. At the same time, Tangshan and Shijiazhuang have a relatively higher number of LGFVs under their jurisdiction. In our view, some differences exist between these vehicles in terms of their indicative importance to the local government.

Chart 6



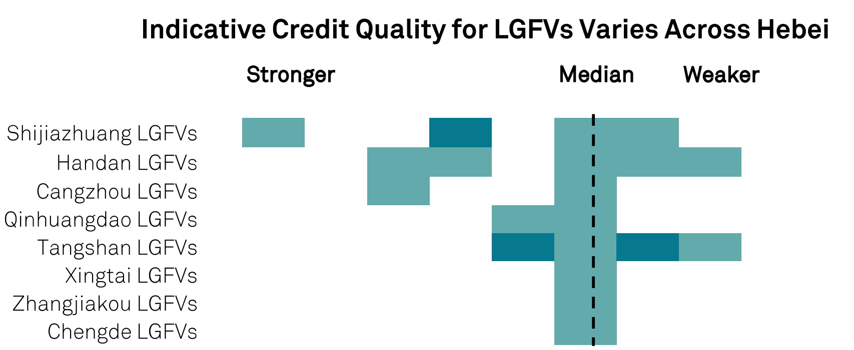
Source: S&P Global (China) Ratings.

Distribution of Indicative Issuer Credit Quality Across Hebei Cities

Based on the above analysis of governments' indicative support for LGFVs and LGFVs' indicative importance, we have arrived at a distribution of indicative issuer credit quality among Hebei's LGFVs.

In our opinion, the distribution of indicative issuer credit quality among LGFVs in Shijiazhuang and Handan is generally at a good level for the province. However, the indicative issuer credit quality of vehicles in Xingtai, Chengde and Zhangjiakou tends to be at the median level for the province.

Chart 7



Note: The horizontal axis represents LGFVs' indicative issuer credit quality. The closer to the left, the stronger the indicative issuer credit quality. The color represents the number of LGFVs with the same indicative issuer credit quality. The darker the color, the higher the number of entities.
Source:S&P Global (China) Ratings.

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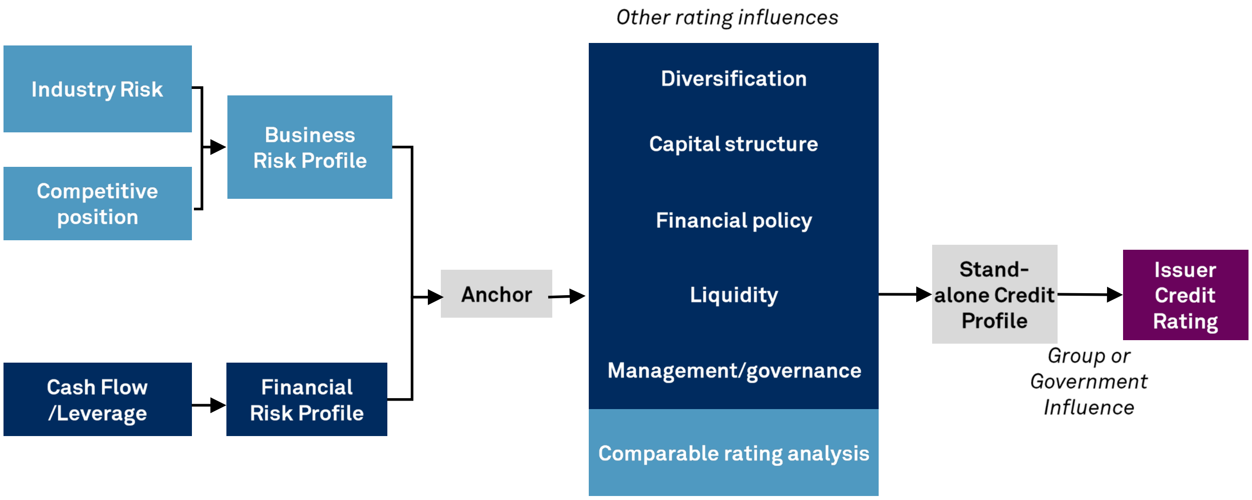
- A Closer Look at China's LGFVs: Zhejiang, April 2, 2020
- Looking Beyond the Short Term – Corporate Outlook: 2020, March 4, 2020
- A Group Portrait of China's LGFVs, November 4, 2019
- Looking For The Most Resilient Players, November 4, 2019

Appendix

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



This report does not constitute a rating action.

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