Guangxi Liuzhou Dongcheng Investment & Development Group Co., Ltd.'s 2019 Corporate Bond

Ratings:

Long-term credit rating of this issuer: AA+
Credit rating of this bond: AA+
Rating outlook: Stable

Bond profile:

Scale of this bond issuance: Up to CNY 1.5 billion
Maturity of this bond: 5 years
Debt servicing method: Annual interest payment, principal repayment in installment
Use of proceeds: To finance projects and supplement working capital

Rating Assigned Date: June 28, 2019

Financial data

Item	2016	2017	2018
Cash assets (CNY 100mn)	129.13	108.78	37.65
Total assets (CNY 100mn)	848.24	1,010.37	1,065.03
Owners' equity (CNY 100mn)	364.09	399.81	432.33
Short-term liabilities (CNY 100mn)	99.62	103.31	89.29
Long-term liabilities (CNY 100mn)	328.55	441.12	450.42
Total liabilities (CNY 100mn)	428.17	544.43	539.70
Revenue (CNY 100mn)	18.31	35.79	67.91
Total profit (CNY 100mn)	3.36	9.52	7.62
EBITDA (CNY 100mn)	6.09	13.00	11.84
Net cash flow from operating activities (CNY 100mn)	1.55	-61.63	8.77
Operating profit margin (%)	30.55	49.74	18.47
ROE (%)	0.68	1.74	1.24
Debt-to-asset ratio (%)	57.08	60.43	59.41
Total debt-to-capitalization ratio (%)	54.04	57.66	55.52
Current ratio (%)	433.21	480.62	447.80
Operating cash flow-to-current liabilities ratio (%)	1.02	-38.95	5.25
Total liabilities/EBITDA (x)	70.33	41.87	45.58
EBITDA-to-interest cover (x)	0.22	0.41	0.35

Note: The interest-bearing portion of long-term payables is classified as long-term liabilities; data for 2016 adopts year-beginning balance in its 2017 audit report; data for 2017 adopts year-beginning balance in its 2018 audit report

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Rationale

As a key urban infrastructure builder and operator in Liuzhou, Guangxi Liuzhou Dongcheng Investment & Development Group Co., Ltd. (hereinafter referred to as the "Company") is responsible for the development of the city's Liudong New District, and boasts strong competitiveness in the region. China Lianhe Credit Rating Co., Ltd.'s (hereinafter referred to as "Lianhe Ratings") rating on the Company reflects its substantial advantages in business environment and external support. Lianhe Ratings has also noted the factors that could have an adverse impact on its credit rating. For example, the Company faces heavy pressure to finance its capital expenditure and repay debt in the short term, its assets are illiquid, and it has a large amount of debt.

The Company's operating cash flow offers a high degree of protection for this bond. The clause on repayment in installments can help ease the financial pressure put on the Company by a concentrated repayment scheme.

With Liuzhou's economy and fiscal strength growing steadily, the Company enjoys a favorable external environment. As Liudong New District continues to develop, its projects under construction complete and become operational, and it continues to diversify its businesses, the Company's revenue and profit are set to keep increasing in the future. Given that the long-term stable support the Company receives from the government will underpin its ability to repay debts, Lianhe Ratings' rating outlook for the Company is stable.

Based on a comprehensive assessment of the Company's long-term credit profile and its ability to repay this bond, Lianhe Ratings concludes that the risk of nonpayment is very low.

Strengths

1. As an important industrial base in western China, Liuzhou has notable geographic advantages. The city's economy has grown

steadily in recent years, with strong fiscal strength, creating a favorable external environment for the Company's development.
2. The Company is responsible for building Liuzhou's Liudong New District, and boasts strong competitiveness in the region.
3. The Company has received substantial support from the government in the form of asset injection, fiscal subsidies, and debt swaps in recent years.
4. In recent years, the Company's assets and equity have been growing, and its capital strength has continually improved.
5. The clause of repayment in installments can help ease financial pressure on the Company arising from concentrated repayment.

Concerns

1. It is uncertain to predict the results of the future implementation of the Company's new business model for its urban infrastructure construction segment and its impact on the Company's revenue.
2. The Company faces heavy pressure to finance its capital expenditure as its projects require massive investment. Uncertainties exist in the future profitability of its proprietary projects and their payback periods.
3. Inventories account for a large portion of the Company's assets, which mainly include land assets and construction costs incurred by its various businesses. Its assets are illiquid, with some being subject to restrictions.
4. The Company has raised funds to finance its projects via multiple financing channels in recent years. It has thus accumulated a large amount of debt and faces heavy pressure to repay debts in the short term.
5. The Company has offered guarantees for a large amount of loans borrowed by Liuzhou Dongtai Construction Engineering Co., Ltd. (LDCE), which has also received a huge amount of entrusted loans from the Company. Given LDCE's poor financial position in 2018, the Company is exposed to risks associated with the recovery of such loans and contingent liabilities, which deserves attention.
6. Since the profits of the proceeds-financed projects are estimated by the Company itself, the reasonableness of such estimates deserves attention; during the bond's existence, when the proceeds-financed projects do not generate profits in certain years or their net profits are not enough to cover the interest and principal payment associated with the projects for the year, the Company will have to rely on its own funds and profits accumulated in the previous years to pay such interest and principal; the expected profitability of proceeds-financed projects is uncertain as it depends on the projects' actual sales and leasing performance after they are complete and it is highly subject to the conditions of the local real estate and property-leasing markets.