Liuzhou City Investment and Construction Development Co., Ltd.’s 2019-1 Commercial Paper

Ratings:

Long-term credit rating of the issuer: AA^+

Credit rating of the commercial paper: A-1

Rating outlook: Stable

Overview of the commercial paper:

Issue size (current tranche): CNY 500 million

Maturity of this issue: 1 year

Debt servicing method: Bullet repayment of principal and interest at maturity

Use of proceeds: To repay interest-bearing debts

Date of rating: September 26, 2019

Rating methodology and model adopted:

Name	Version
Credit rating methodology for urban infrastructure investment enterprises	V3.0.201907
Credit rating model for urban infrastructure investment enterprises (scoring table)	V3.0.201907

Note: Lianhe Ratings has publicly disclosed the aforementioned rating method and rating model at its official website

Scoring table and results under the rating model:

Indicative rating	aa^-	Rating		AA^+
Evaluation item	**Evaluation result**	**Risk factor**	**Evaluation element**	**Evaluation result**
Operational risk	B	Business environment	Macro and regional risks	2
			Industry risk	3
		Competitiveness	Fundamental quality	2
			Corporate management	2
			Business analysis	1
Financial risk	F3	Cash flow	Asset quality	4
			Profitability	3
			Cash flows	1
		Capital structure		2
		Solvency		3
Adjustment factors and reasons				**Adjustment sub-level**
Government support				2

Note: In terms of operational risk, there are a total of six levels including A, B, C, D, E and F, with A representing the lowest level of operational risk and F representing the highest. For each evaluation element, there are a total of six grades, with grade 1 representing the best conditions and grade 6 representing the worst; In terms of financial risk, there are a total of seven levels from F1 to F7, with F1 representing the lowest level of financial risk and F7 representing the highest. For each evaluation element, there are a total of seven grades, with grade 1 representing the best conditions and grade 7 representing the worst; Financial indicators are weighted average for the recent three years; the indicative rating is derived using the matrix analysis model

Rationale:

Upon assessment, China Lianhe Credit Rating Co., Ltd. (“Lianhe Ratings”) assigns a credit rating of A-1 to the 2019-1 commercial paper (the “CP”) Liuzhou City Investment and Construction Development Co., Ltd. (the “Company”) intends to issue. Based on a comprehensive assessment of the Company’s credit profile and its ability to repay the CP, Lianhe Ratings concludes that the risk of default on the CP repayment is very low.

Strengths

1. As an important industrial base in western China, Liuzhou has enjoyed sustained economic growth, continually improved its fiscal strength, and invested heavily in infrastructure facilities, creating a favorable external environment for the Company’s development.
2. As a key builder of urban infrastructure facilities such as roads and bridges and an implementor of level-1 land development in the main urban area of Liuzhou, the Company has received sustained, strong support from the Liuzhou municipal government in recent years in terms of capital and asset injection, authorized operation, fiscal subsidies and debt swap.
3. The Company has a large amount of land assets on its books, and a sustainable comprehensive land development business.

Concerns

1. The Company faces pressure to finance its capital expenditure as its infrastructure construction projects require massive investment.
2. The Company's total profit is highly dependent on government subsidies, while its actual profitability is not particularly good.
3. In 2018, the Company’s overall fundraising declined rapidly, with a huge amount of net financing cash outflows in the year. In addition, the total amount of undrawn credit lines available to the Company is small, meaning it needs to expand its financing channels.

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Key financial data:

Consolidated				
Item	2016	2017	2018	June 2019
Cash assets (CNY 100mn)	154.86	138.65	93.44	76.93
Total assets (CNY 100mn)	777.21	829.05	815.31	844.58
Owners' equity (CNY 100mn)	307.94	369.68	387.25	390.71
Short-term liabilities (CNY 100mn)	137.27	114.87	116.00	127.27
Long-term liabilities (CNY 100mn)	296.27	315.03	274.56	277.62
Total liabilities (CNY 100mn)	433.53	429.91	390.56	404.89
Revenue (CNY 100mn)	15.82	15.50	15.42	7.25
Total profit (CNY 100mn)	3.41	3.88	5.08	1.88
EBITDA (CNY 100mn)	5.97	5.81	6.20	--
Net cash flow from operating activities (CNY 100mn)	-0.48	-39.01	15.28	-27.32
Operating profit margin (%)	22.55	19.07	18.45	21.38
ROE (%)	1.02	0.91	1.22	--
Debt-to-asset ratio (%)	60.38	55.41	52.50	53.74
Total debt-to-capitalization ratio (%)	58.47	53.77	50.21	50.89
Current ratio (%)	415.08	549.75	496.19	450.30
Operating cash flow-to-current liabilities ratio (%)	-0.28	-28.08	10.40	--
Cash-to-short-term debt ratio (x)	1.13	1.21	0.81	0.60
EBITDA-to-interest coverage ratio (x)	0.34	0.21	0.26	--
Total liabilities/EBITDA (x)	72.65	74.01	62.97	--
Company				
Item	2016	2017	2018	June 2019
Total assets (CNY 100mn)	773.56	843.67	817.31	842.27
Owners' equity (CNY 100mn)	307.85	369.59	387.23	390.70
Total liabilities (CNY 100mn)	412.96	416.04	363.93	372.71
Revenue (CNY 100mn)	15.80	15.48	15.40	7.24
Total profit (CNY 100mn)	3.41	3.87	5.09	1.89
Debt-to-asset ratio (%)	60.20	56.19	52.62	53.61
Total debt-to-capitalization ratio (%)	57.29	52.96	48.45	48.82
Current ratio (%)	384.36	462.52	461.40	391.11
Operating cash flow-to-current liabilities ratio (%)	-9.67	-12.47	-4.89	--

Note: 1. Short-term liabilities include the interest-bearing portion of other payables and other current liabilities; 2. Long-term liabilities include financial leasing amount under long-term payables; 3. Financial data for 1H 2019 have not been audited.

Previous credit ratings of the issuer:

Credit rating	Rating outlook	Date of rating	Project team	Rating methodology/model	Rating report
AA^+	Stable	07/09/2019	HUANG Qirong, ZHANG Jianfei, HU Yuanjie	Credit rating methodology for urban infrastructure investment enterprises Credit rating model for urban construction investment enterprises (2016)	Read full text
AA^+	Stable	03/01/2018/	YANG Mingqi, WANG Cun	Credit rating methodology for urban infrastructure investment enterprises (2017) Credit rating model for urban construction investment enterprises (2016)	Read full text

Note: Rating reports for the aforementioned rating projects can be accessed via the report links; the rating methodologies and rating models adopted before August 1, 2019 have no version number

China Lianhe Credit Rating Co., Ltd.
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