

## A Closer Look at China's LGFVs: Liaoning

14 September, 2020

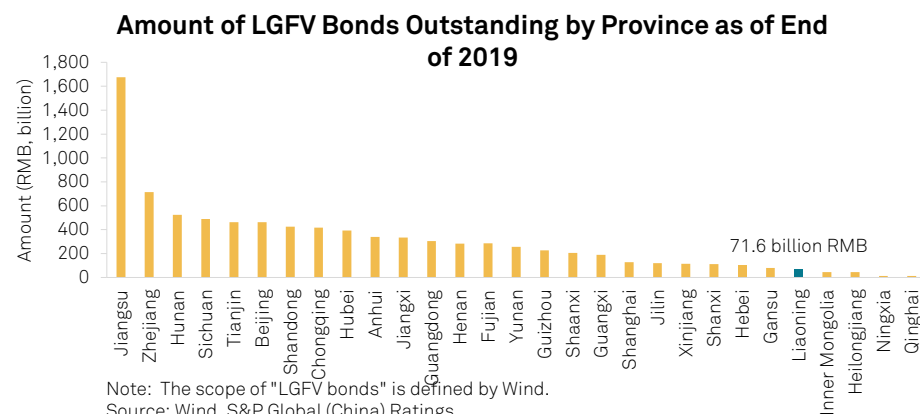
### Key Takeaways

- Following a desktop analysis of 51 local government financing vehicles (LGFVs) in Liaoning Province, we have found that median indicative issuer credit quality is slightly weaker than the national median level.
- In our opinion, Shenyang and Dalian have the strongest indicative support capacities for LGFVs among the province's prefecture-level cities.
- Yingkou and Huludao have similar indicative support capacity for their respective LGFVs. However, because both cities vary in terms of distribution of LGFV's indicative importance to their local governments, vehicles in the two cities differ in terms of indicative issuer credit quality.

To get a full picture of the overall credit quality of LGFVs in Liaoning Province, we carried out a desktop analysis of 51 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 around 80% of LGFVs with bonds outstanding in the province, and we believe they present a comprehensive reflection of the overall indicative credit quality of LGFVs in Liaoning.

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 Liaoning, and the municipal governments' indicative ability to provide vehicles with support.

Chart 1



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## 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: Liaoning LGFVs Generally Weaker

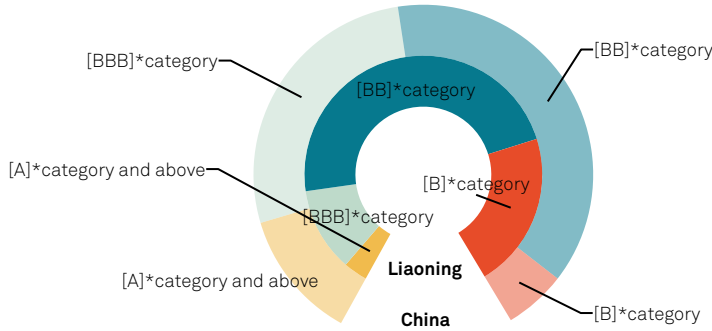
Located on the Yellow Sea and Bohai Sea, Liaoning Province is the gateway to northeast China. Historically one of China's major industrial bases, Liaoning's main industries today are equipment manufacturing and raw materials. In 2019, Liaoning's GDP reached 2.5 trillion RMB, increasing 5.5% over the previous year and ranking Liaoning 15th out of China's 31 provinces and autonomous regions. Per capita GDP was 57,000 RMB, marking a year-over-year increase of 5.7%. In terms of its industrial structure, Liaoning's primary, secondary and tertiary industries accounted for 8.7%, 38.3% and 53.0% of regional GDP respectively.

The median indicative issuer credit quality of the 51 vehicles in our sample is slightly lower than that of a sample of LGFVs at the national level. In our view, there are two main reasons for this. First, except for Shenyang, Dalian and Anshan (three cities with stronger indicative support capacity for LGFVs), Liaoning's prefecture-level cities tend to have weaker indicative support capacity for their LGFVs. Second, district-level, county-level and industrial park LGFVs make up a

relatively large portion of our sample. We view such vehicles as generally being of less-than-critical importance to their respective local governments. This lower importance level limits such LGFVs' indicative issuer credit quality.

Chart 2

**Indicative Credit Quality: Comparing LGFVs in Liaoning and Nationwide**



Note\*: 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. Copyright ©2020 by S&P Ratings (China) Co., Ltd. All rights reserved.

**Within the Province: Shenyang and Dalian LGFVs Generally Stronger**

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 importance to the relevant local authority.

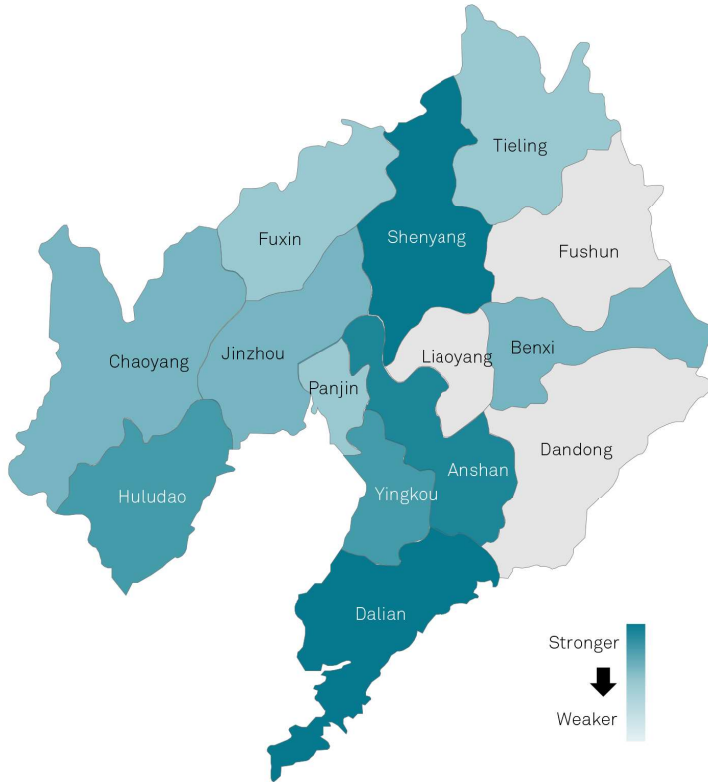
**Analysis of Local Government Indicative Support**

After looking at each city in Liaoning relevant to our sample and considering factors such as economic performance, budget, debt, liquidity and financial management, we view that relatively large differences may exist in the indicative support capabilities of the province's prefecture-level authorities. Shenyang and Dalian have the strongest indicative support capacity for LGFVs within the province. Anshan also has relatively strong indicative support capacity for LGFVs. However, Fuxin, Tieling and Panjin have relatively weaker indicative support capacity.

The chart below reflects our view on local governments' indicative support capacity for LGFVs across Liaoning. The darker the color, the stronger we view the potential support capability for LGFVs, and vice versa.

Chart 3

**Varied Indicative Ability to Support LGFVs Within the Province**

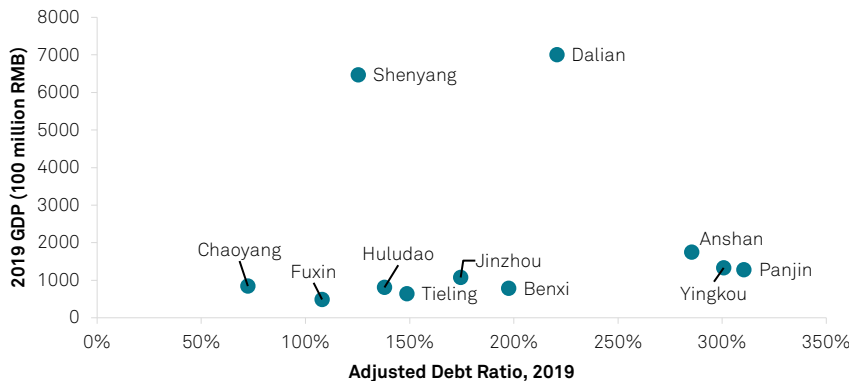


Note: Areas in gray were not included in this study.  
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In our opinion, differences in economic and financial strength as well as the debt levels of cities in Liaoning have resulted in varying levels of indicative support capacity. In terms of economic development and debt, Dalian (a city earmarked as strategically important) and Shenyang (the provincial capital) are far ahead in the province in terms of economic size. Dalian has relied on its advantages as a port to develop its coastal economy, but its debt ratio tends to be high for the province. This is mainly due to investment in infrastructure construction and public welfare projects in recent years, which has seen the Dalian municipal government and LGFVs under its jurisdiction accumulate significant debts. As the economic, political and cultural center of Liaoning Province, Shenyang's equipment manufacturing industry has developed rapidly, and its debt ratio is in a controllable range. The total economic volume of Chaoyang, Fuxin, Tieling and other cities is relatively low, but their debt burdens are fair. The high debt ratios of Anshan, Yingkou and Panjin can be largely attributed to high levels of government debt. The debt scale of LGFVs in Panjin and Anshan is also large, compared to relatively smaller LGFV debt levels in Yingkou.

Chart 4

### Differentiation of Economic Performance and Debt in Liaoning Cities

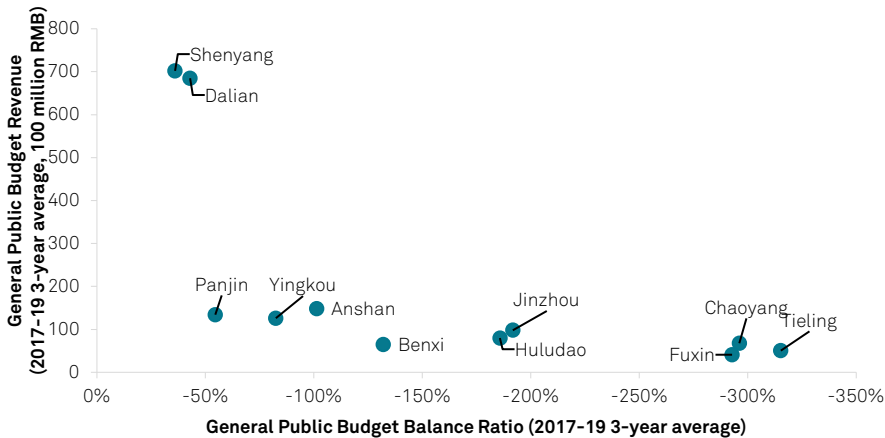


Note: Adjusted Debt Ratio = (2019 gov. debt + estimated 2019 adjusted LGFV debt) / 2019 fiscal revenue.  
 Source: Wind, S&P Global (China) Ratings.  
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When considering the fiscal capacity of each city, the average annual public budget revenue of Shenyang and Dalian over the last three years has been about 70 billion RMB, far higher than other prefecture-level cities in the province. Meanwhile, the city's general public budget balance ratio is the best in the province. Except for Shenyang and Dalian, the average annual general public budget revenue of other prefecture-level cities in Liaoning has not exceeded 20 billion RMB. Panjin, Yingkou, and Anshan are in the second tier in the region. Fuxin, Chaoyang and Tieling are at a weaker level for the province, with these three cities having smaller economic scale and higher expenditure on social security, education, agriculture, forestry and water. Balancing fiscal revenue and expenditure is largely dependent on transfer from higher-level authorities.

Chart 5

### Differentiation of Cities' Budgets in Liaoning



Source: Wind, S&P Global (China) Ratings.  
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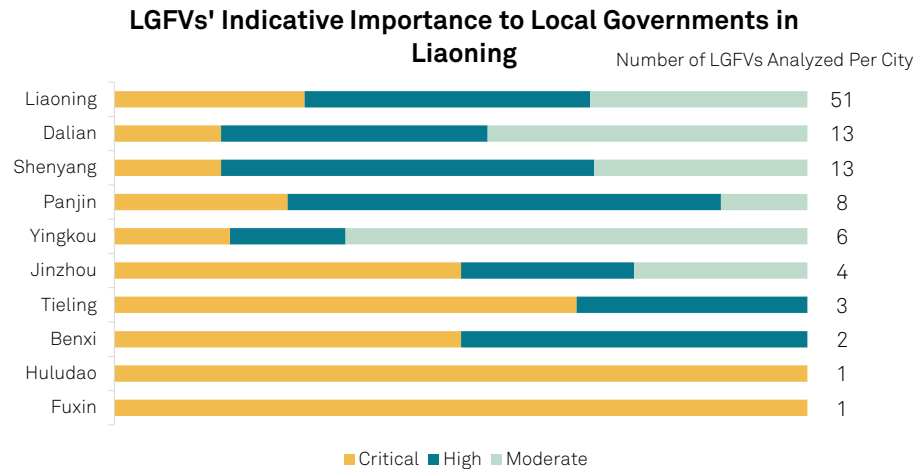
## Analysis of LGFVs' Importance to Local Governments

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.

The chart below shows the distribution of indicative importance of LGFVs in Liaoning's prefecture-level cities. Dalian and Shenyang have a relatively higher number of LGFVs when compared to the rest of the province, with more than 10 each. However, most of these LGFVs are at a district, county or industrial park-level. At the same time, LGFVs in certain regions have overlapping functions. Therefore, we view these vehicles as not being of high importance to their local government. In our opinion, the economic foundations and financial strength of other prefecture-level cities in Liaoning are weaker, with a relatively low number of LGFVs in each city. The majority of LGFVs in Panjin and Yingkou are concentrated at district, county and industrial park-level, with some vehicles having lower revenue and smaller asset scale. Most of these LGFVs are, in our view, of "high" or "moderate" indicative importance to their local government. However, Benxi, Huludao and Fuxin have relatively few LGFVs, and we see these vehicles as undertaking a greater number of functions. Therefore, most of them are of "critical" indicative importance to local authorities.

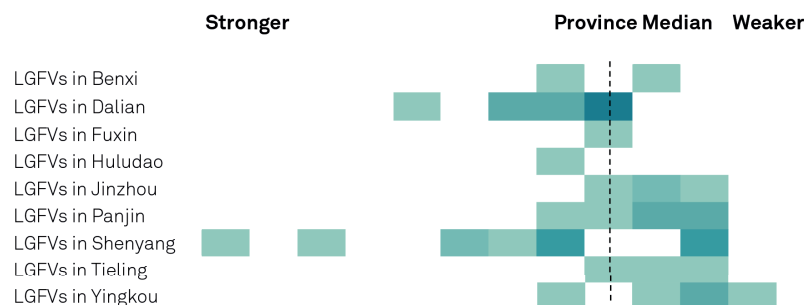
Chart 6



Source: S&P Global (China) Ratings.  
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Based on the above analysis, we view the indicative issuer credit quality of LGFVs in Shenyang and Dalian as relatively high overall, which is mainly due to the strong indicative support capacity of the local government. Yingkou and Huludao have similar levels of indicative support capacity for the vehicles under their jurisdiction. However, due to differences in the indicative importance level of LGFVs in each city, differences can be seen in the distribution of indicative issuer credit quality among LGFVs in the two cities. The lower indicative issuer credit quality of LGFVs in Panjin and Tieling can largely be attributed to their relatively lower indicative support capacity for LGFVs.

Chart 7

**Indicative Credit Quality for LGFVs Varies Across Liaoning**

Note: Municipalities are in alphabetical order. The color represents the numbers of LGFVs with the same indicative issuer credit quality. The darker the color, the higher the number of entities. The dark dotted line represents the median of indicative credit quality of LGFVs in Liaoning Province.

Source: S&P Global (China) Ratings.

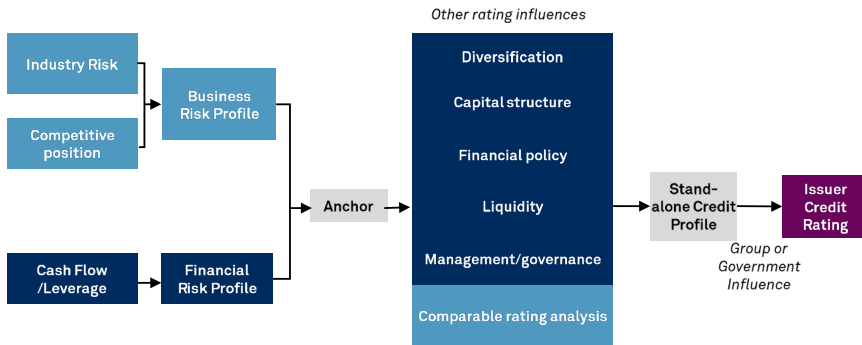
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# Appendix

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



This report does not constitute a rating action.



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