

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

May 11, 2020

### Key Takeaways

- Following a desktop analysis of 83 local government financing vehicles (LGFVs) in Jiangxi Province, we believe that the median indicative issuer credit quality of vehicles in the province is slightly lower than the national median. Within the province, clear polarization exists between LGFVs in different cities.
- We believe that Jiangxi is on a par with the national average in terms of its economic base and financial strength. Nanchang has the highest indicative support capacity within the province, while Xinyu, Yingtan, Jingdezhen and Pingxiang are relatively weaker in comparison.
- We have noticed that a relatively high proportion of LGFVs in Jiangxi have issued guaranteed bonds.

To get a full picture of the overall indicative credit quality of LGFVs in Jiangxi Province, we carried out a desktop analysis of 83 LGFVs in 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 represent close to 91% of LGFVs with bonds outstanding in Jiangxi, covering 11 prefecture-level cities, and we believe they offer a comprehensive reflection of the overall indicative credit quality of LGFVs in Jiangxi.

We believe local government support is generally the most important factor when considering the indicative credit quality of LGFVs. In this report, we have analyzed the importance of LGFVs to Jiangxi's municipal governments, and the municipal governments' indicative ability to provide vehicles with support.

#### Primary Analyst

**Lei Wang**

Beijing

+86-10 6516 6038

lei.wang@spgchinaratings.cn

#### Secondary Analysts

**Di Jiao**

Beijing

+86-10 6516 6039

di.jiao@spgchinaratings.cn

**Xiao Zhang**

Beijing

+86-10 6516 6036

xiao.zhang@spgchinaratings.cn

**Jia Yunxin**

Beijing

+86-10 6516 6041

yunxin.jia@spgchinaratings.cn

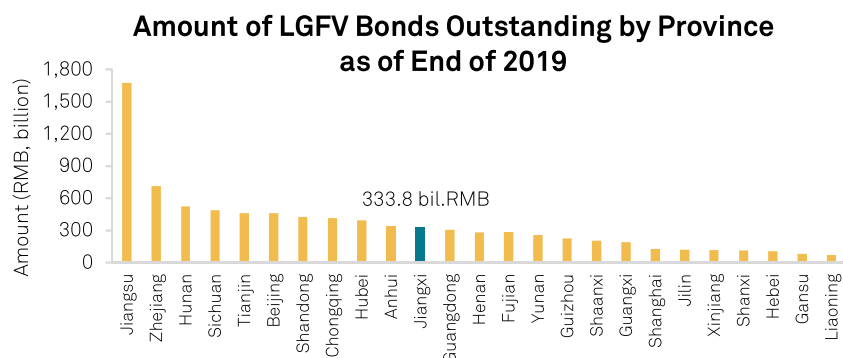
**Ye Liu**

Beijing

+86-10 6516 6035

ye.liu@spgchinaratings.cn

Chart 1



Note: The scope of "LGFV bonds" is defined by Wind.

Source: Wind, S&P Global (China) Ratings.

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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.

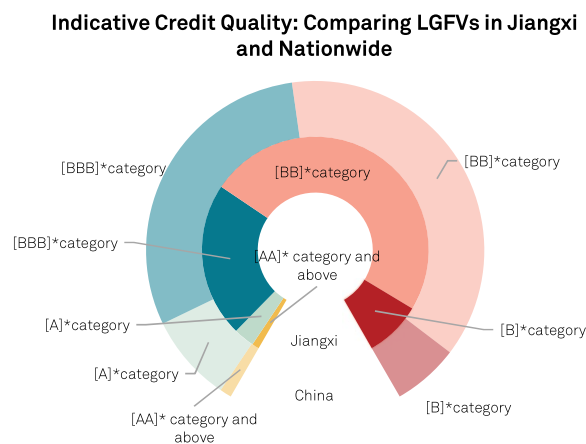
## On the National Level: Jiangxi LGFVs Generally Weaker

Jiangxi Province is rich in mineral resources, with one of the widest ranges of extractable minerals in China. Known as “the home of non-ferrous metals,” Jiangxi is one of the country’s top-three sources for copper, tungsten and silver. Jiangxi’s major industries include metals, precision manufacturing, automobiles and aviation, electrical products and tourism. There are 11 prefecture-level cities in the province.

Compared with the rest of the country, Jiangxi ranks in the mid-range for its economic performance and financial strength. In 2019, Jiangxi’s GDP was around 2.5 trillion RMB, ranking 16th among all provinces. Its per capita GDP of 53,164 RMB is slightly lower than the national average. Jiangxi’s primary, secondary and tertiary industries accounted for 3.4%, 49.9% and 46.7% of GDP growth respectively. In 2019, the general public budget revenue of Jiangxi was 248.7 billion RMB, while its general public budget balance ratio of -157% ranked in the mid-range nationwide.

The median indicative issuer credit quality of the 83 vehicles in our sample is slightly lower than that of a nationwide sample of 1700 LGFVs. We believe this is mainly because most cities in Jiangxi have either average or relatively weaker indicative support capacity.

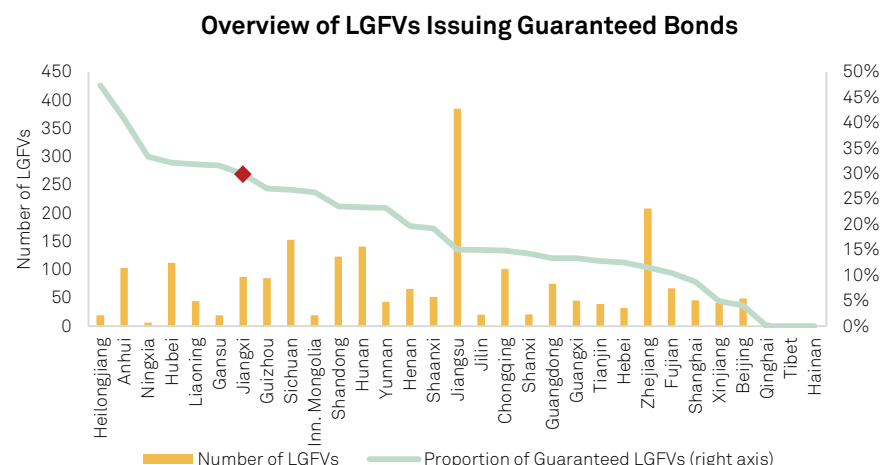
Chart 2



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.  
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We have noted the proportion of LGFVs with guaranteed bonds outstanding in Jiangxi is higher than that of the national sample, although the total number of LGFV issuers in the province ranks in the middle nationwide. This may reflect local governments' relatively weaker indicative support capacity, as well as the lower-tier LGFVs' relatively lower standing in the capital market where they may need guarantees to support their bond issuance.

Chart 3



Note: LGFV bond data from Wind as of March 31, 2020.

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## Within the Province: Nanchang Far Ahead of Other Cities

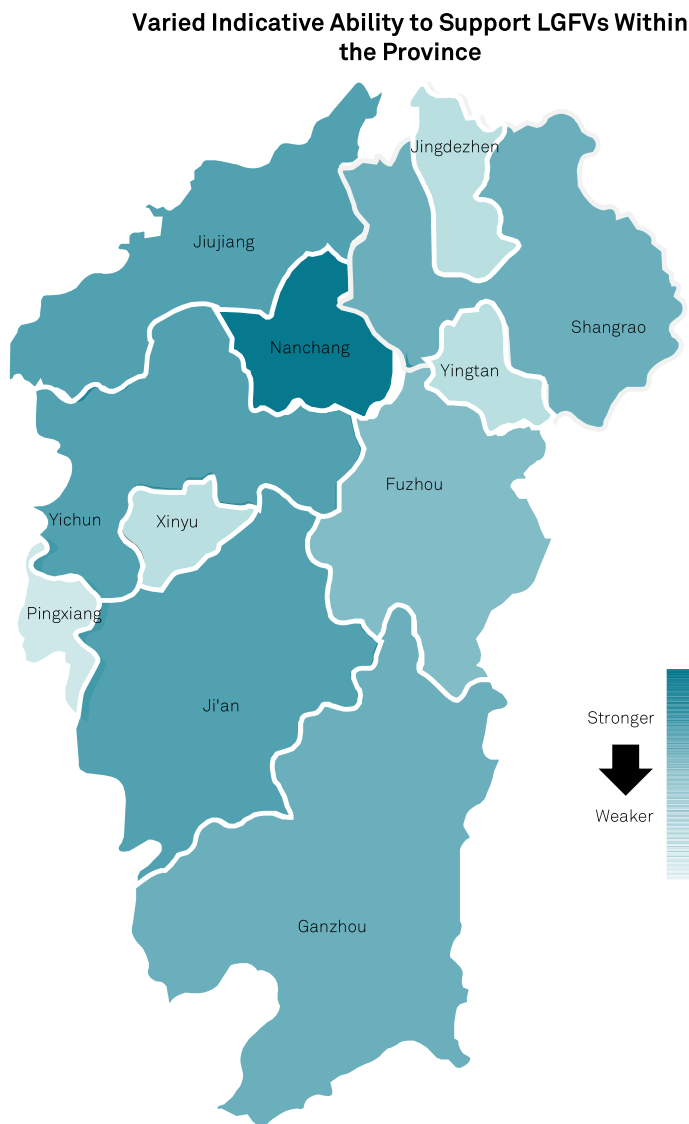
Our analysis found that the business and financial risk profiles of LGFVs are largely similar, and there are fewer differences between LGFVs in terms of indicative stand-alone credit quality. Differences in credit quality among LGFVs can largely be attributed to differing levels of government support. We believe that differences in the degree of support largely stem from variations in the indicative support capabilities of local governments and LGFVs' different levels of importance to their relevant local authority.

### Analysis of Local Government Indicative Support Capacity

In terms of local government indicative support capability, we looked at each of Jiangxi's 11 prefecture-level cities and considered factors such as economic performance, budget, debt, liquidity and financial management. Our analysis suggests that some differences exist in the indicative support capability of local authorities in Jiangxi. We view that Nanchang has stronger indicative capacity to support LGFVs. At the lower end of the spectrum are Xinyu, Yingtan, Jingdezhen and Pingxiang, in our view, with weaker indicative support capacity.

The chart below shows our view of the indicative support capability of local governments for LGFVs across Jiangxi. The darker the color, the stronger the indicative support capability for LGFVs, and vice versa.

Chart 4



Source: S&P Global (China) Ratings.  
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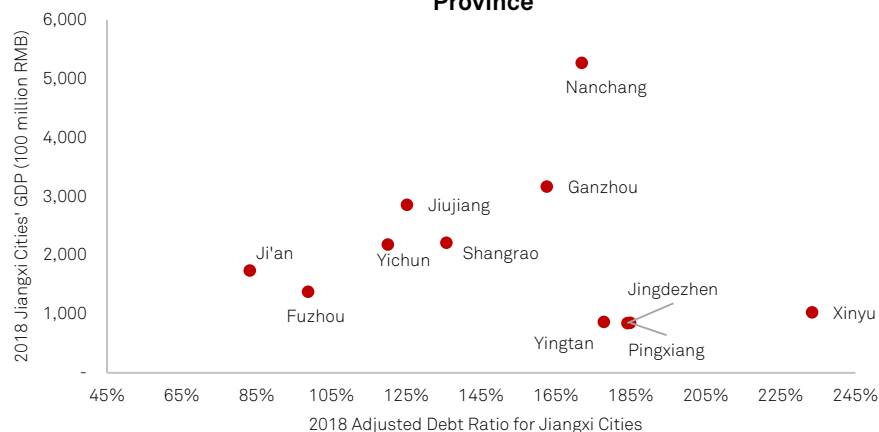
We believe that the different levels of indicative support capacity among cities in Jiangxi can be attributed to differences in their economic performance, financial strength and indebtedness.

As the provincial capital, Nanchang has the highest level of economic development in the province. In 2019, the city accounted for around 23% of GDP in the whole province. Xinyu, Jingdezhen and Pingxiang are classified by the State Council as cities with “depleting” resources, while Yingtian heavily relies on a single industry. Economic development in these cities is relatively weaker when compared with the rest of the province.

In terms of debt, Xinyu, Yingtian, Pingxiang and Jingdezhen have adjusted debt ratios higher than the provincial average. In our view, this can largely be attributed to these cities’ relatively smaller economies and lower fiscal revenue.

Chart 5

### Differentiation of Economic Performance and Debt in Jiangxi Province



Note: 1. Adjusted Debt Ratio=(2018 gov. debt + estimated 2018 adjusted LGFV debt)/2018 fiscal revenue. 2. Pingxiang city's debt based on city's own calculation standards.

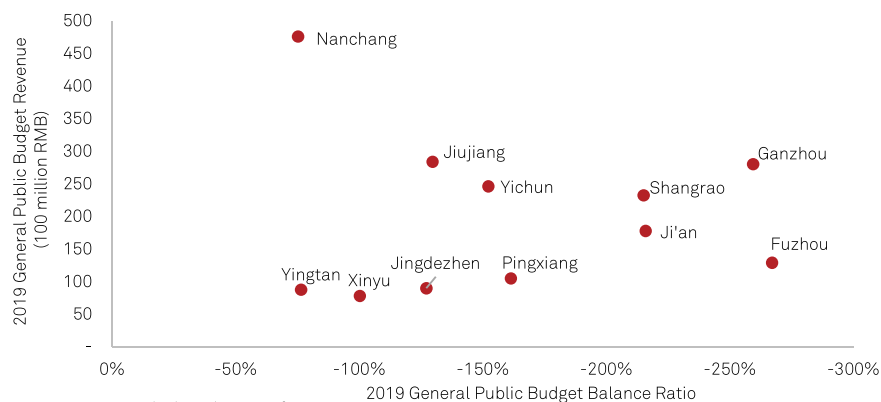
Source: Government websites, S&P Global (China) Ratings.

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Nanchang has a significantly higher general public budget revenue than other cities in the province, with a good general public budget balance ratio. Amid ongoing industrial restructuring, Xinyu, Yingtian, Pingxiang and Jingdezhen are weaker in terms of economic strength and have lower general public budget revenue such as tax revenue than the provincial average. Yingtian and Xinyu have maintained their general public budget balance at a reasonable level, thanks to their smaller populations, thus lower general public budget expenditure. Fuzhou lacks a distinct pillar industry, and because of its higher general public budget expenditure resulting from its larger population, its general public budget balance is at the lower end for the province.

Chart 6

### Differentiation of Cities' Budgets in Jiangxi



Note: Jingdezhen data as of 2018.

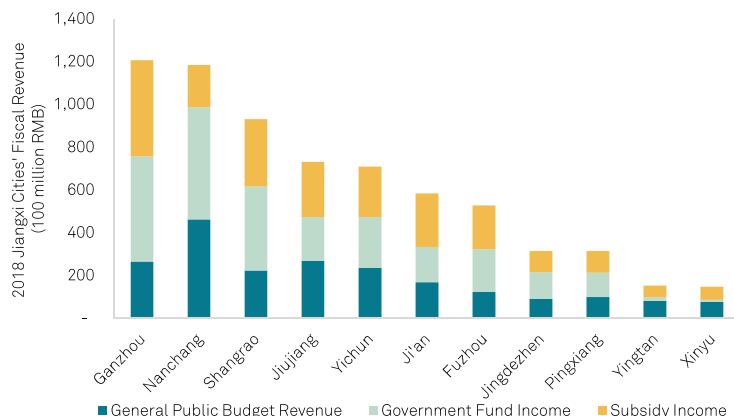
Source: Government websites, S&P Global (China) Ratings.

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Differences also exist between Jiangxi cities in terms of how their fiscal revenue is structured. Revenue from government funds accounts for a higher proportion of fiscal revenue in Nanchang, Shangrao, Ganzhou and Jingdezhen. However, this type of revenue faces some uncertainty in cities like Jingdezhen, which have weaker economies and lower fiscal strength. In Xinyu and Yingtan, government funds account for a much smaller proportion of overall fiscal revenue than elsewhere in Jiangxi. We believe one reason may be that these cities have relatively lower land sales.

Chart 7

Structure of Jiangxi Cities' Fiscal Revenue



Note: Pingxiang city's government fund income is an estimate.

Source: Government websites, S&P Global (China) Ratings.

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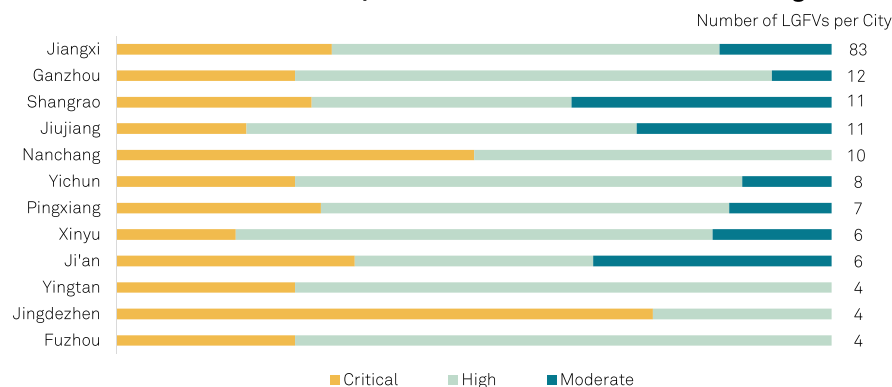
## Analysis of LGFVs' Importance to Local Governments

In addition to each city's indicative ability to support, differences in the indicative issuer credit quality of LGFVs also depend on an LGFV's indicative importance to its local government. When analyzing support, we typically consider an LGFV's importance by looking at factors such as: its 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 provides an overview of the distribution of LGFVs' indicative importance in Jiangxi and each of its prefecture-level cities. Overall, we see varied importance distributions among the cities, mainly due to differences in the distribution of levels and policy roles.

Chart 8

LGFVs' Indicative Importance to Local Governments in Jiangxi



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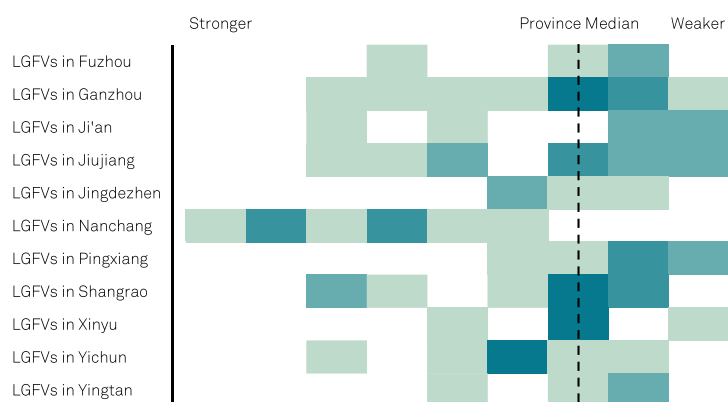
Compared with other cities in the province, Jingdezhen, Yingtian and Fuzhou have relatively fewer LGFVs. The vehicles in these cities may take on more functions and roles, in our view, thus elevating their indicative importance to local governments. However, Jiujiang, Shangrao and Ganzhou have a relatively higher number of LGFVs compared to the rest of the province, with more than 10 vehicles in each city. While these cities have even more LGFVs than the province's economic powerhouse Nanchang, they have a higher proportion of mid-to-lower-tier LGFVs under their jurisdiction.

## Distribution of Indicative Issuer Credit Quality Across Different Cities

Our analysis has shown that there are relatively large differences between Jiangxi cities both in terms of local governments' indicative support capabilities and LGFV's indicative importance to regional authorities. This has led to relatively scattered distribution of LGFVs' indicative issuer credit quality across Jiangxi's cities, as displayed in the chart below.

Chart 9

**Distribution of Indicative Issuer Credit Quality Across Jiangxi LGFVs**



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 Jiangxi Province.

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In Nanchang, where the government has stronger indicative support capacity, LGFVs generally have stronger indicative issuer credit quality. For Nanchang's lower-end LGFVs, indicative issuer credit quality is still higher than the provincial median. Ganzhou, Jiujiang and Shangrao have a relatively higher number of LGFVs, and differences in areas such as the level of a vehicle mean these LGFVs may vary in terms of indicative importance to local governments, leading to gaps between vehicles in indicative issuer credit quality. Many LGFVs in these cities need to secure guarantees in order to issue bonds, which to some extent may reflect how the market views their credit quality. The indicative issuer credit quality of LGFVs in Jingdezhen and Pingxiang is relatively weaker, mainly because the cities themselves have weaker indicative support capacity, and lower-tier LGFVs make up a certain proportion of vehicles in these cities.

## Related Research

[A Closer Look at China's LGFVs: Guangxi, April 22, 2020](#)

[A Closer Look at China's LGFVs: Fujian, April 22, 2020](#)

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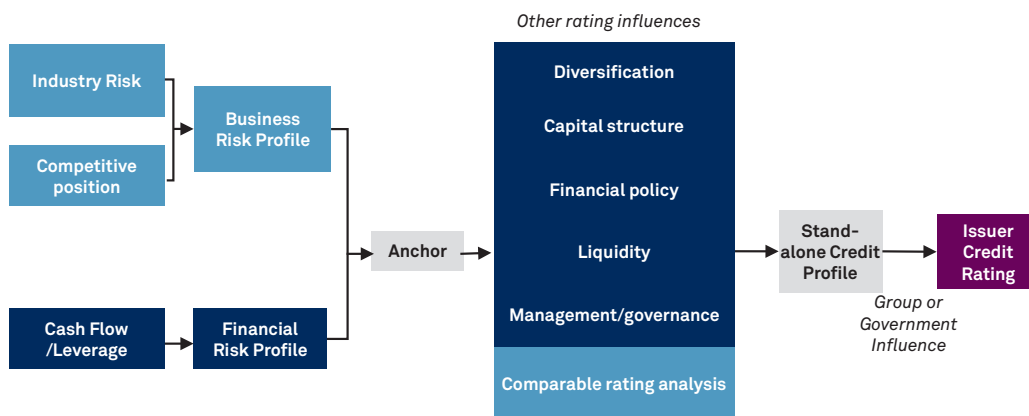
[Looking Beyond the Short Term – Corporate Outlook: 2020, March 4, 2020](#)

[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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