

A Closer Look at China's LGFVs: Jilin

September 14, 2020

Key Takeaways

- Following a desktop analysis of 13 local government financing vehicles (LGFVs) in Jilin Province, we view their median indicative issuer credit quality as being in line with the national median level. However, Jilin has a higher proportion of LGFVs with lower indicative issuer credit quality than the national level.
- Jilin has relatively few LGFVs, and we view that the majority of city-level vehicles undertake multiple local infrastructure construction financing and public welfare roles, elevating their importance to their respective local authorities.

To get a full picture of the overall credit quality of LGFVs in Jilin Province, we carried out a desktop analysis of 13 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 5 cities among the province's 9 prefecture-level areas, and we believe they present a comprehensive reflection of the overall indicative credit quality of LGFVs in Jilin.

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

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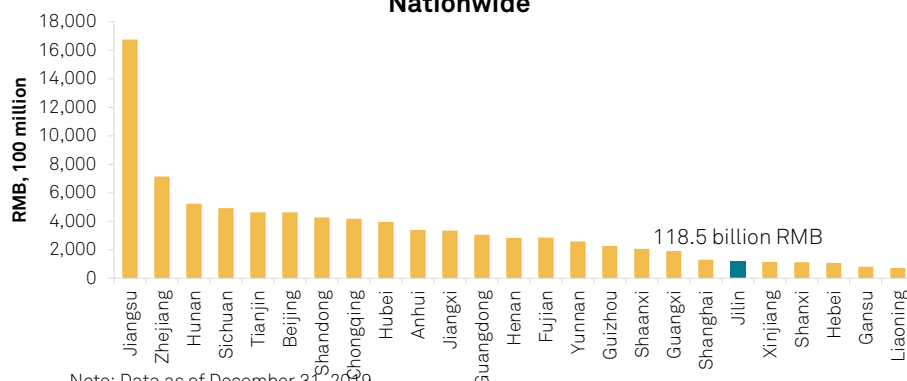
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Chart 1

Comparing Bonds Outstanding Among Jilin LGFVs and Nationwide



Note: Data as of December 31, 2019.

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.

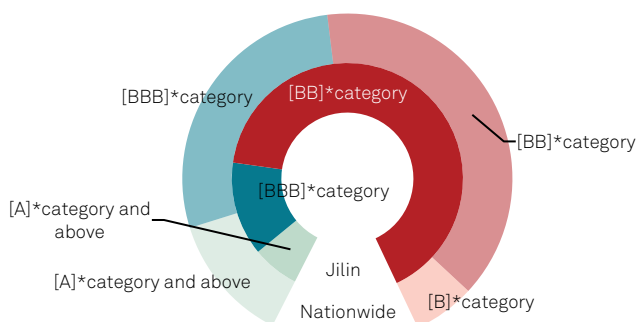
On the National Level: Distribution of Jilin LGFV's Indicative Issuer Credit Quality Tends to be Weaker

Jilin is located at the heart of China's northeast and is one of the country's nine frontier provinces, acting as an important northern portal for China's "One Belt One Road." Covering an area of 187,400 square kilometers, Jilin had a permanent population of 27 million by the end of 2019, and an urbanization rate of 58%. Jilin has eight prefecture-level cities and one autonomous prefecture under its jurisdiction. There are 60 county-level administrative divisions, as well as the Changbai Mountain Protection and Development Zone.

The median indicative issuer credit quality of the 13 vehicles in our sample is roughly in line with that of a sample of around 1800 LGFVs at the national level. However, when compared to the whole country, Jilin has relatively fewer LGFVs with moderate-to-high indicative issuer credit quality and tends to have more vehicles with below-average indicative issuer credit quality.

Chart 2

Indicative Credit Quality: Comparing LGFVs in Jilin 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.

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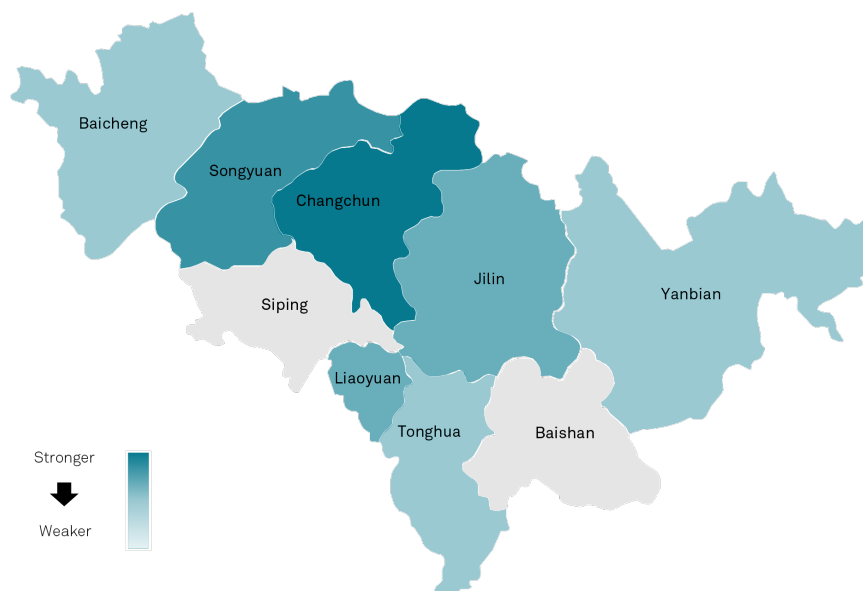
Within the Province: Changchun Overall Better than Other Cities

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 Capability

After looking at each city in Jilin 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 the province's prefecture-level authorities. Changchun, Songyuan, Jilin City and Liaoyuan have relatively stronger indicative support for LGFVs, However Tonghua, Yanbian and Baicheng have relatively weaker indicative support capacity.

Chart 3

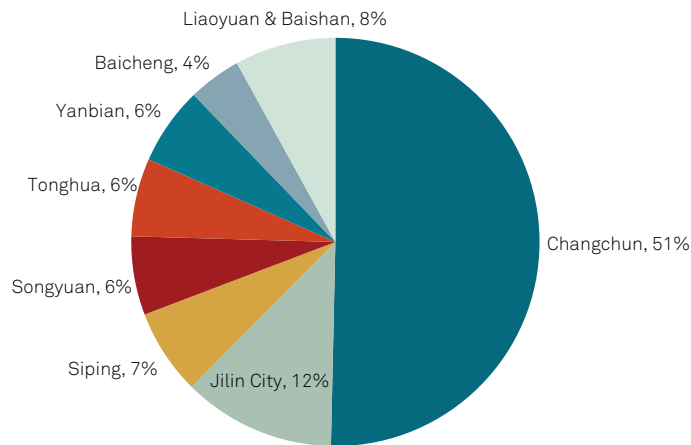
Varied Indicative Ability to Support LGFVs Within Jilin Province

Source: S&P Global (China) Ratings.
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In our opinion, differences in economic and financial strength as well as the debt levels of cities in Jilin have resulted in varying levels of indicative support capacity.

Jilin's resources and support are centered around Changchun, the provincial capital. The city is dominant in all aspects (Changchun's total GDP accounts for 51% of the province's total). This is the main reason why we regard the city as having the strongest indicative support ability for LGFVs. In contrast, other prefecture-level cities in Jilin lag behind Changchun in terms of overall development, and we view the indicative support capacity of these cities as not only weaker than Changchun, but also at a moderate-to-low level when compared with prefecture-level cities in other provinces.

Chart 4

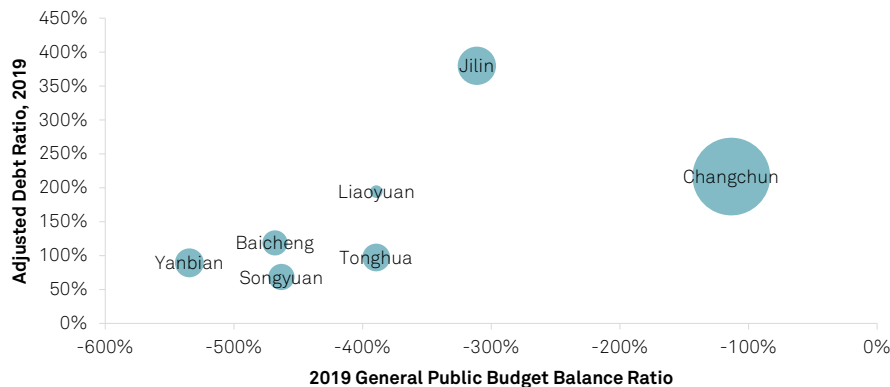
2019 GDP by Region in Jilin Province (%)

Source: Government websites.

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Changchun has significant fiscal revenue and good capacity to balance its public budget, while its debt burden is at a moderate level. Jilin City has reasonable fiscal revenue, and its capacity for balancing its public budget is average, but its debt burden is heavy. Yanbian, Baicheng and Songyuan are weaker in terms of balancing their public budgets, but their debt burdens are relatively low.

Chart 5

Comparison of Jilin 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.

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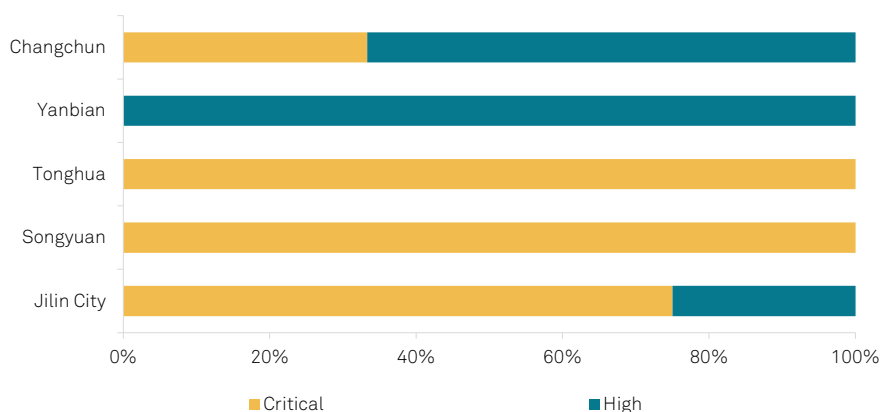
Analysis of LGFVs' Importance to Local Governments

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. Even within the same district or region, these factors can, in our opinion, lead to differences in LGFVs' indicative importance to their local authority.

LGFVs in Jilin generally undertake multiple functions. This is especially the case in Tonghua and Songyuan, which each only have one city-level LGFV on public record. Such LGFVs are, in our view, of critical indicative importance to their respective local governments. In Yanbian Prefecture, due to the relatively lower administrative level of its LGFVs, we regard their indicative importance level to local government as high but limited from reaching a critical level. At the same time, Changchun and Jilin City have more LGFVs. In our opinion, some differences exist between vehicles in these two cities in terms of their indicative importance to their respective local authorities.

Chart 6

LGFV's Indicative Importance to Local Governments in Jilin



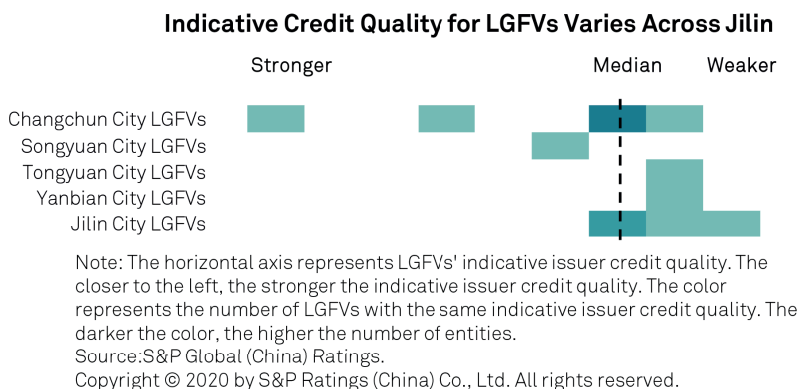
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Distribution of Indicative Issuer Credit Quality Across Jilin Cities

From our analysis of indicative support capacity and LGFV's indicative importance, we have arrived at a distribution of indicative issuer credit quality among Jilin's LGFVs.

In our opinion, because the indicative support capacity of the Changchun municipal government is significantly stronger than that of other cities in the province, the indicative issuer credit quality of Changchun's LGFVs is generally at the median or above level for the province. The indicative support capacity of the local governments in Tonghua and Yanbian is relatively weaker, and indicative issuer credit quality of LGFVs in these two areas is therefore lower than the provincial median.

Chart 7

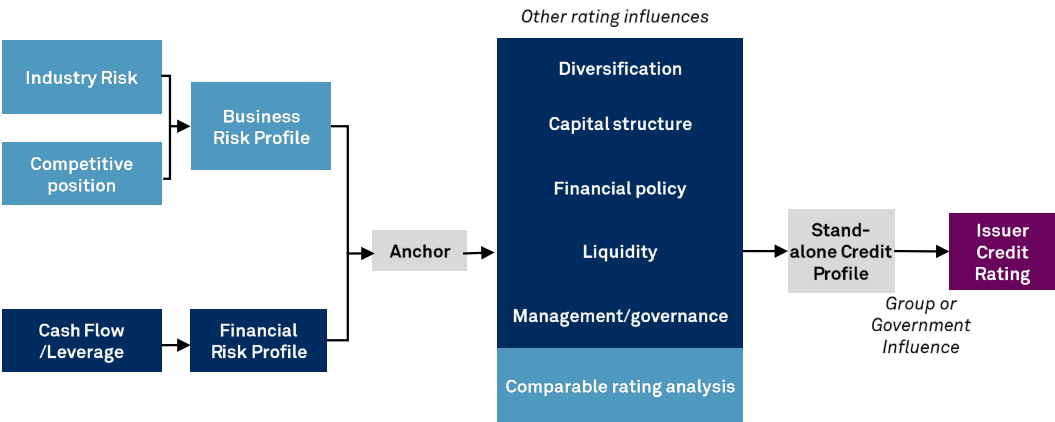


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- [Looking Beyond the Short Term – Corporate Outlook: 2020, March 4, 2020](#)
- [A Group Portrait of China's LGFVs, November 4, 2019](#)
- [Looking For The Most Resilient Players, November 4, 2019](#)

Appendix

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



This report does not constitute a rating action.

This document is prepared in both English and Chinese. The English translation is for reference only, and the Chinese version will prevail in the event of any inconsistency between the English version and the Chinese version.

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