

A Closer Look at China's LGFVs: Shandong

June 4, 2020

Key Takeaways

- Following a desktop analysis of 131 local government financing vehicles (LGFVs) in Shandong Province, we believe that the median indicative issuer credit quality of vehicles in the region is higher than the national median level.
- We believe that Shandong's 16 prefecture-level cities generally have strong indicative support capacity for their LGFVs, with Qingdao, Jinan and Yantai standing out in particular.

To get a full picture of the overall credit quality of LGFVs in Shandong Province, we carried out a desktop analysis of 131 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 85% of LGFVs with bonds outstanding in Shandong, covering 16 prefecture-level cities. We believe they offer a comprehensive reflection of the overall indicative credit quality of LGFVs in Shandong.

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 Shandong'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

Yunxin Jia

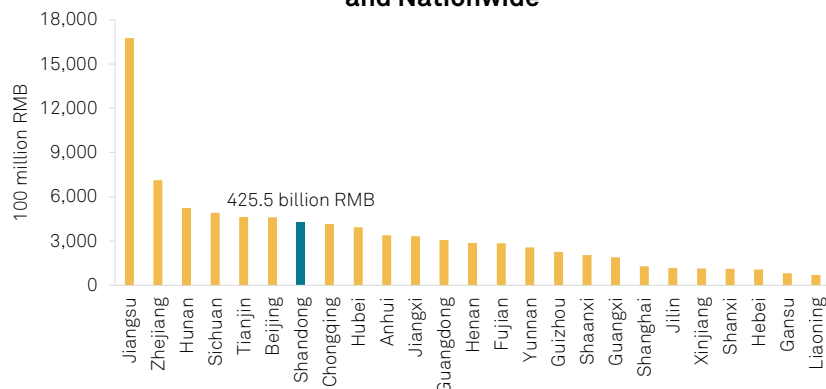
Beijing
+86-10 6516 6041
yunxin.jia@spgchinaratings.cn

Ye Liu

Beijing
+86-10 6516 6035
ye.liu@spgchinaratings.cn

Chart 1

Comparing Bonds Outstanding Among Shandong LGFVs and Nationwide



Note: LGFV debt defined by Wind, data as of December 31, 2019.
Source: Wind, S&P Global (China) Ratings.
Copyright ©2020 by S&P Ratings (China) Co., Ltd. All rights reserved.

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.

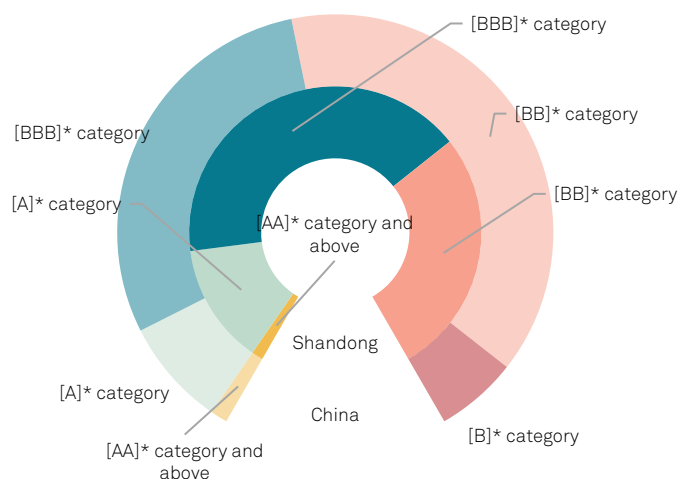
On the National Level: Shandong LGFVs Stronger Overall

As one of China's most developed provinces, Shandong is at the forefront nationwide in terms of its economic and financial strength. In 2019, Shandong's GDP was 7.1 trillion RMB, ranking third nationally, while its per capita GDP of 70,653 RMB is at the national average level. In terms of its industrial structure, Shandong's primary, secondary and tertiary industries accounted for 7.2%, 39.8% and 53.0% respectively. In 2019, Shandong's general public budget revenue was 652.7 billion RMB, with a general public budget balance ratio of -65%, a good level when compared to other regions. Shandong's key industries include chemicals, energy, metals, mining, agriculture and food processing.

When compared to a national sample of 1700 LGFVs, the median indicative issuer credit quality of the 131 vehicles in our sample is higher. We believe this can largely be attributed to cities in Shandong generally having strong indicative support capacity.

Chart 2

Indicative Credit Quality: Comparing LGFVs in Shandong 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: LGFVs Vary in Terms of Indicative Issuer Credit Quality

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 indicative importance to their relevant local authorities.

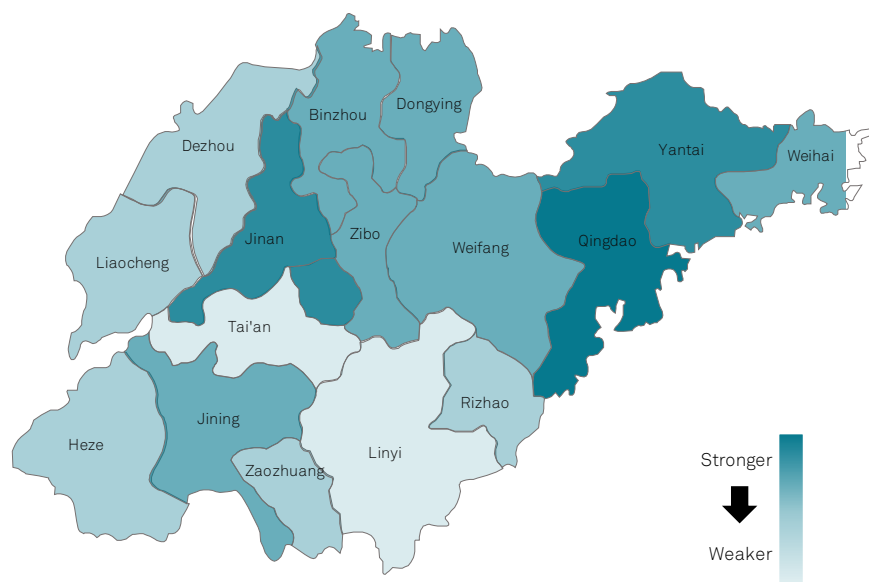
Analysis of Local Government Indicative Support Capacity

In terms of local government support capability, we looked at each of Shandong's 16 prefecture-level cities and considered factors such as economic performance, budget, debt, liquidity and financial management. Our analysis suggests that while Shandong's cities generally have strong indicative support capabilities, some differences can be found. Qingdao, Jinan and Yantai can provide a stronger level of support to LGFVs, while Tai'an and Linyi are at the opposite end of the spectrum in the province.

The chart below shows the indicative support capability of local governments for LGFVs across Shandong. The darker the color, the stronger the indicative support capability for LGFVs, and vice versa. As can be seen below, the province is stronger to the east and weaker towards the west in terms of its cities' indicative support capabilities for LGFVs.

Chart 3

Varied Indicative Ability to Support in the Province

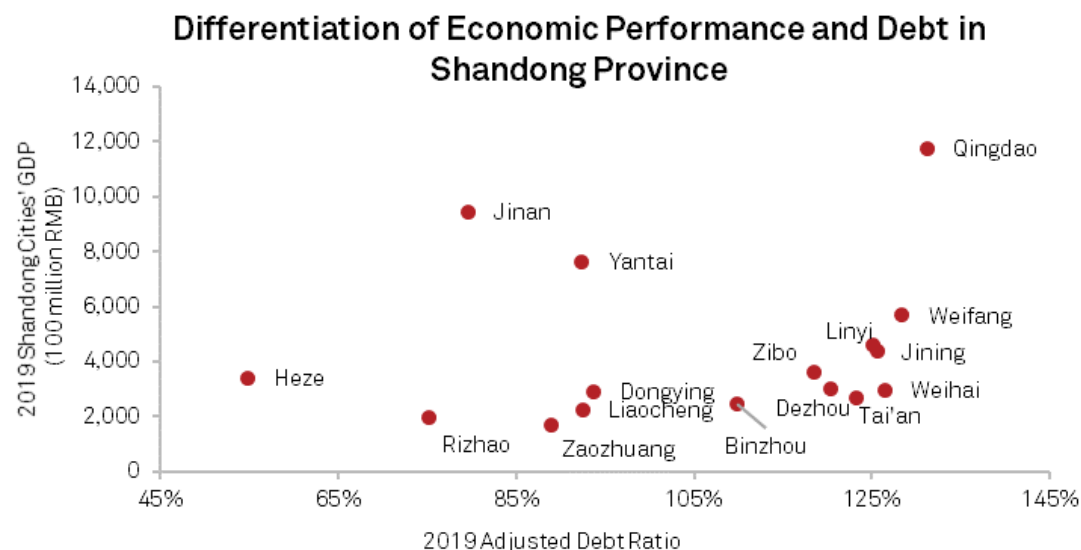


Note: Laiwu city is now under Jinan's jurisdiction.
 Source: S&P Global (China) Ratings.
 Copyright ©2020 by S&P Ratings (China) Co., Ltd. All rights reserved.

We believe that differences in economic and financial strength, as well as the debt situation of cities in Shandong may lead to local authorities having different indicative support capabilities.

Qingdao is Shandong's strongest city in terms of its economy, but it also has the province's highest debt ratio. This is mainly because of the city's large-scale investment in infrastructure construction and use of capital market financing, which has led to significant LGFV debt levels. The provincial capital Jinan and Yantai are second only to Qingdao in terms of economic strength. However, Jinan's debt ratio is at the lower end for the province, with low levels of both government debt and LGFV debt. At the same time, we found that while Rizhao and Zaozhuang have smaller economies than other cities in the province, they have relatively low debt ratios. This is mainly because both cities have low LGFV debt levels.

Chart 4



Note: Adjusted Debt Ratio = (2019 gov. debt + estimated 2019 adjusted LGFV debt) / 2019 fiscal revenue.

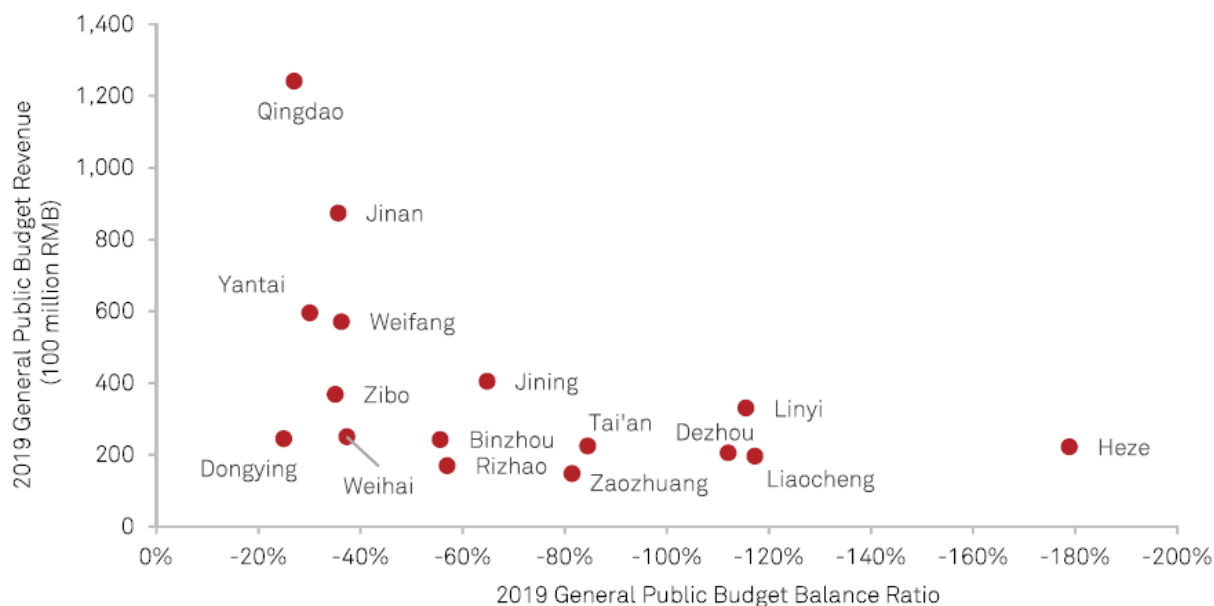
Source: Wind, S&P Global (China) Ratings.

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

Qingdao and Jinan are the province's strongest cities in terms of fiscal strength, with large-scale fiscal revenue and good capacity to balance their public budgets. This fiscal strength can be attributed to both cities' good economic situations. Although Rizhao, Dongying, Binzhou and Weihai have smaller general public budget revenue, their populations are small. This means they have lower non-discretionary general budget expenditure, thereby better capacity to maintain their general public budget balance. However, Heze has relatively low fiscal revenue and a large population, pushing the city's general public budget balance ratio to the lower end for the province.

Chart 5

Comparison of Shandong Cities' Fiscal Strength



Source: Government websites, S&P Global (China) Ratings.
Copyright ©2020 by S&P Ratings (China) Co., Ltd. All rights reserved.

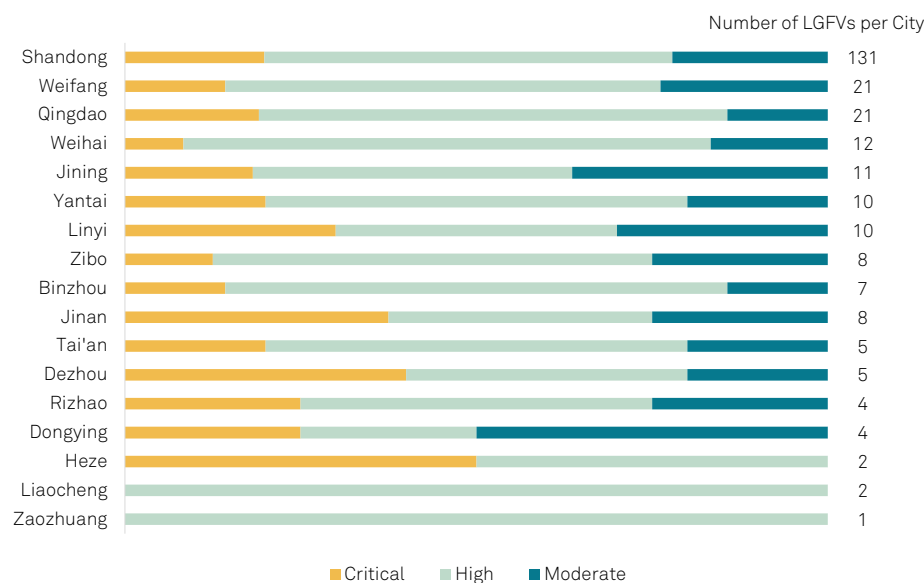
Analysis of LGFVs' Importance to Local Governments

In addition to each government's indicative capability to support, differences in the indicative issuer credit quality of LGFVs also depend on an LGFV's indicative importance to its relevant government. When analyzing support, we typically consider an LGFV's importance by looking at factors such as: its 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 presents an overview of the distribution of LGFVs' indicative importance to their local governments in Shandong and its prefecture-level cities. Differences can be found between different cities in terms of the distribution of their LGFVs' levels and functions, leading to a broad range of indicative importance.

Chart 6

LGFVs' Indicative Importance to Local Governments in Shandong



Source: S&P Global (China) Ratings.

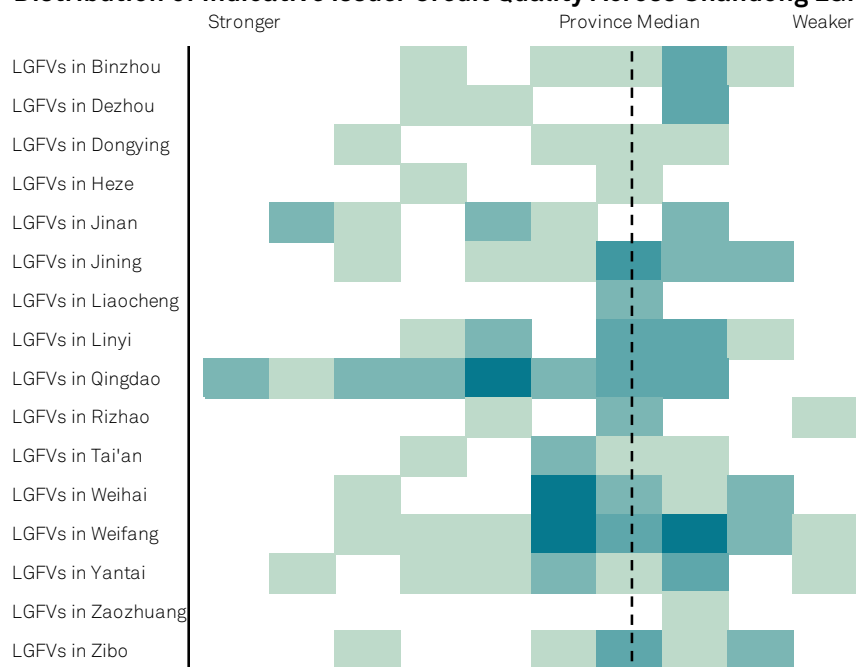
Copyright ©2020 by S&P Ratings (China) Co., Ltd. All rights reserved.

Compared to other cities in the province, Zaozhuang, Liaocheng and Heze have a lower number of LGFVs. The majority of Zaozhuang and Liaocheng's LGFVs operate at a district or county level. While these vehicles may take on more functions in their respective districts or counties, we believe that their lower levels mean that they are only of high importance to their local governments rather than critical. Weifang and Qingdao, on the other hand, have a higher number of LGFVs, with each city having more than 20 vehicles under their jurisdiction. However, a high proportion of LGFVs in these cities are at a medium or low level, and some regions include multiple vehicles with overlapping functions. Provincial capital Jinan has a relatively small amount of LGFVs, with 8 vehicles under its jurisdiction. With a clear distribution of levels and well-defined functions, we believe Jinan's LGFVs are evenly distributed in terms of their indicative importance to their local government.

Distribution of Indicative Issuer Credit Quality Across Different Cities

There are some differences between cities in Shandong in terms of their indicative support capabilities for LGFVs. This, along with clear differences in LGFVs' indicative importance to local authorities, leads to a relatively scattered distribution of indicative issuer credit quality among LGFVs in Shandong's cities, as can be seen in the chart below.

Chart 7

Distribution of Indicative Issuer Credit Quality Across Shandong LGFVs

Note: Municipalities are in alphabetical order. The horizontal axis represents LGFVs' indicative issuer credit quality. The closer to the left, the stronger the indicative issuer credit quality. The color represents the number 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 Shandong Province.

Source: S&P Global (China) Ratings.

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

Qingdao, Linyi, Weihai, Jinan, Weifang and Yantai have a relatively higher number of LGFVs. Because of differences in their levels and functions, there may be some differentiation between LGFVs in terms of their indicative importance to local governments, and a greater dispersal of indicative issuer credit quality. Qingdao, in our view, has the strongest indicative support capacity, and its LGFVs therefore tend to be stronger overall than the provincial median. Compared to elsewhere in the province, local authorities in Rizhao, Zaozhuang and Tai'an are relatively weaker in terms of indicative support capacity, and their LGFVs have lower median indicative issuer credit quality than the provincial median.

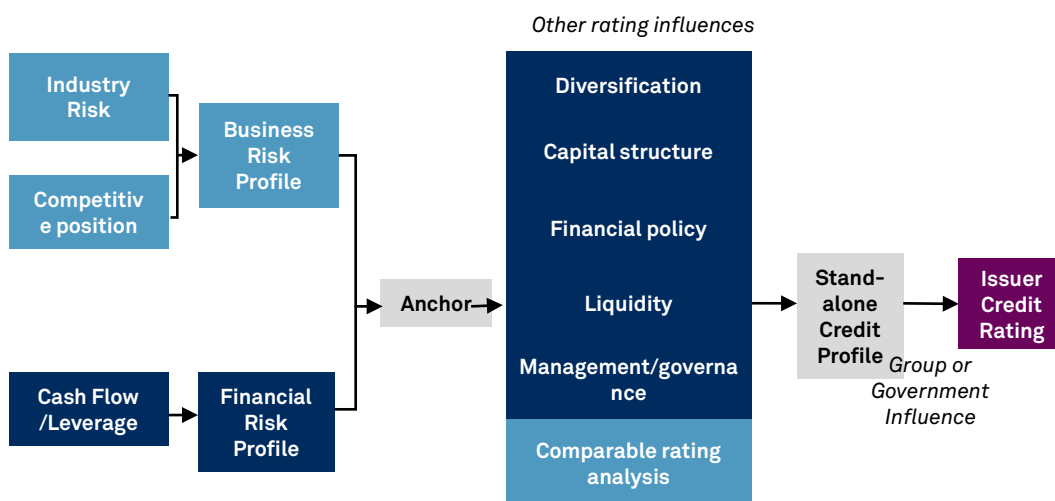
Related Research

- [A Closer Look at China's LGFVs: Sichuan, May 21, 2020](#)
- [A Closer Look at China's LGFVs: Chongqing, May 21, 2020](#)
- [A Closer Look at China's LGFVs: Yunnan, May 21, 2020](#)
- [A Closer Look at China's LGFVs: Jiangxi, May 11, 2020](#)
- [A Closer Look at China's LGFVs: Guangxi, April 22, 2020](#)
- [A Closer Look at China's LGFVs: Fujian, April 22, 2020](#)
- [A Closer Look at China's LGFVs: Henan, April 20, 2020](#)

- [A Closer Look at China's LGFVs: Shaanxi, April 20, 2020](#)
- [A Closer Look at China's LGFVs: Guangdong, April 13, 2020](#)
- [A Closer Look at China's LGFVs: Anhui, April 13, 2020](#)
- [A Closer Look at China's LGFVs: Hunan, April 2, 2020](#)
- [A Closer Look at China's LGFVs: Zhejiang, April 2, 2020](#)
- [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 1

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.

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

S&P Ratings (China) Co., Ltd. ("S&P Ratings") owns the copyright and/or other related intellectual property rights of the abovementioned content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content). No Content may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Ratings. The Content shall not be used for any unlawful or unauthorized purposes. S&P Ratings and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively "S&P Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P Ratings' opinions, analyses, forecasts and rating acknowledgment decisions (described below) 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. S&P Ratings assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and / or clients when making investment and other business decisions. S&P Ratings does not act as a fiduciary or an investment advisor except where registered as such. While S&P Ratings has obtained information from sources it believes to be reliable, S&P Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

S&P RATINGS IS NOT PART OF THE NRSRO. A RATING ISSUED BY S&P RATINGS IS ASSIGNED ON A RATING SCALE SPECIFICALLY FOR USE IN CHINA, AND IS S&P RATINGS' OPINION OF AN OBLIGOR'S OVERALL CREDITWORTHINESS OR CAPACITY TO MEET SPECIFIC FINANCIAL OBLIGATIONS, RELATIVE TO THAT OF OTHER ISSUERS AND ISSUES WITHIN CHINA ONLY AND PROVIDES A RANK ORDERING OF CREDIT RISK WITHIN CHINA. AN S&P RATINGS' RATING IS NOT A GLOBAL SCALE RATING, AND IS NOT AND SHOULD NOT BE VIEWED, RELIED UPON, OR REPRESENTED AS SUCH. S&P PARTIES ARE NOT RESPONSIBLE FOR ANY LOSSES CAUSED BY USES OF S&P RATINGS' RATINGS IN MANNERS CONTRARY TO THIS PARAGRAPH.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P Ratings reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Ratings disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P Ratings keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Ratings may have information that is not available to other S&P Ratings business units. S&P Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P Ratings may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Ratings reserves the right to disseminate its opinions and analyses. S&P Ratings' public ratings and analyses are made available on its Web site www.spgchinaratings.cn, and may be distributed through other means, including via S&P Ratings' publications and third-party redistributors.