

A Closer Look at China's LGFVs: Tianjin

July 24, 2020

Key Takeaways

- Following a desktop analysis of 27 local government financing vehicles (LGFVs) in Tianjin, we have found that median indicative issuer credit quality is slightly higher than the national median level.
- In our view, there is significant pressure from hidden debt in Tianjin, with the city under a heavier burden than most of China's other provincial-level administrative regions.
- City-level LGFVs and vehicles in Binhai New Area are, in our opinion stronger in Tianjin in terms of overall indicative issuer credit quality. LGFVs in Tianjin's four suburban districts and other regions have moderate-to-lower indicative issuer credit quality.

To get a full picture of the overall credit quality of LGFVs in Tianjin Municipality, we carried out a desktop analysis of 27 LGFVs across the region, using public information. Our sample includes LGFVs at the city-level and below and subway companies, but excludes city-level transportation construction companies, investment holding companies and utility companies. The entities in the sample cover 10 out of Tianjin's 16 districts, and we believe they present a comprehensive reflection of the overall indicative credit quality of LGFVs in Tianjin.

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 compared the indicative support capacity of the Tianjin municipal government with that of authorities in other similar cities, while also considering the distribution of relevant LGFVs' indicative importance.

In our analysis we have also looked at LGFVs in Tianjin's different districts, forming a view of the distribution of their indicative issuer credit quality.

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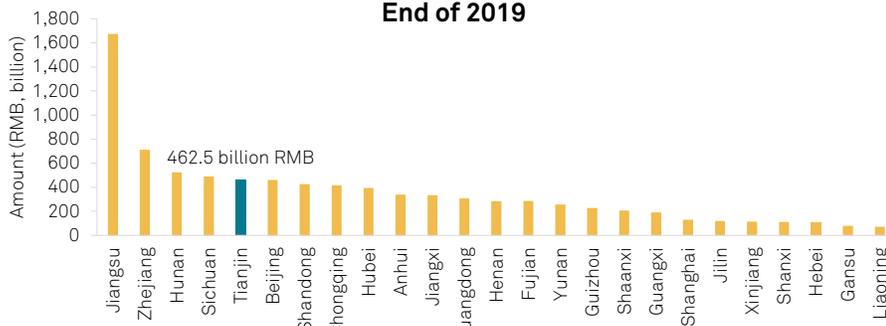
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Chart 1

Amount of LGFV Bonds Outstanding by Province as of End of 2019



Note: The scope of "LGFV bonds" is defined by Wind.
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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: Tianjin LGFVs Generally at Median Level

Tianjin is, together with Beijing, Shanghai and Chongqing, one of China's four municipalities under the direct control of the central government. As China's biggest port city, Tianjin is located in the northeast of the North China Plain, and sits on the coast of the Bohai Sea, with Yanshan to the north and Beijing to the west. Covering an area of 11,967 square kilometers, Tianjin comprises 16 districts, 126 towns and 3 villages. As of the end of 2019, Tianjin's permanent population was 15.6 million, with an urbanization rate of 83.48%.

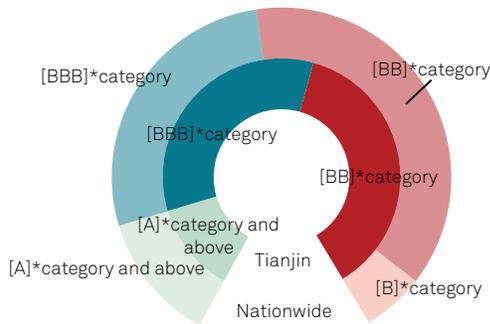
With a long history rooted in industry, Tianjin was northern China's first city to establish machinery processing, chemical manufacturing, salt production, textile factories and modern shipbuilding. In recent years, Tianjin's economic development has relied on heavy industry, with sluggish growth among traditional industries. With a slowing economy, Tianjin is under some pressure to adjust its industrial structure and transform its growth model. In 2019, Tianjin's GDP was 1.4 trillion RMB, increasing 4.8% year-over-year at a pace that fell behind China's overall

growth rate. Per capita GDP of 90,000 RMB was higher than the nationwide median provincial level.

For the 27 LGFVs in our sample, the overall distribution of their median indicative issuer credit quality is generally in line with that of a sample of more than 1800 LGFVs nationwide. However, our Tianjin sample contains relatively fewer LGFVs with indicative issuer credit quality towards the tail end.

Chart 2

Indicative Credit Quality: Comparing LGFVs in Tianjin 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.
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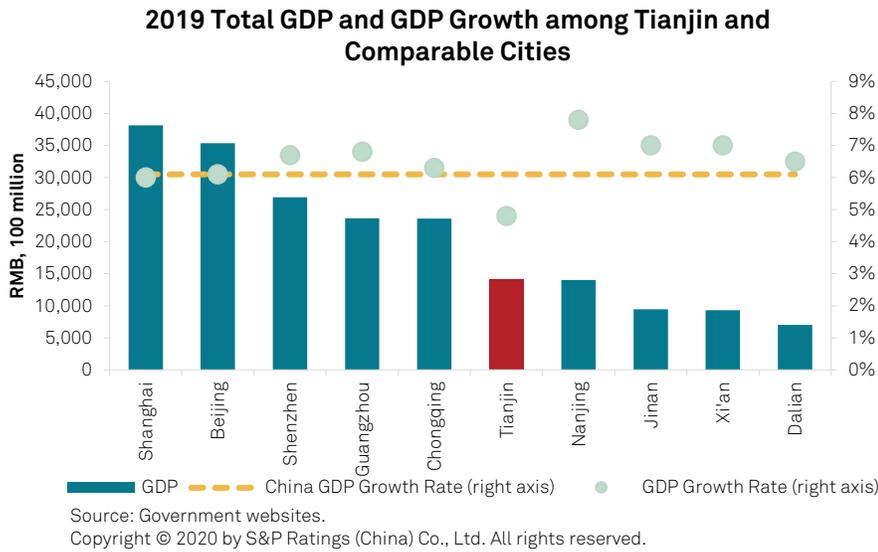
Indicative Support Capacity: On a Par with Comparable Cities

To better gauge the Tianjin municipal government's indicative support capacity, we have compared Tianjin with nine other cities with similar administrative status and levels of economic development: Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing, Nanjing, Jinan, Xi'an and Dalian.

Among these cities, we view Tianjin as having a relatively high level of economic development and good capacity for balancing its general public budget. However, when taking Tianjin's relatively higher debt level into account, its indicative support capacity is average when compared to its peers. It should be noted that we regard Tianjin and all of the abovementioned cities as being capable of providing strong indicative support. When compared to all of China's cities, Tianjin's indicative support capacity is still at a good level.

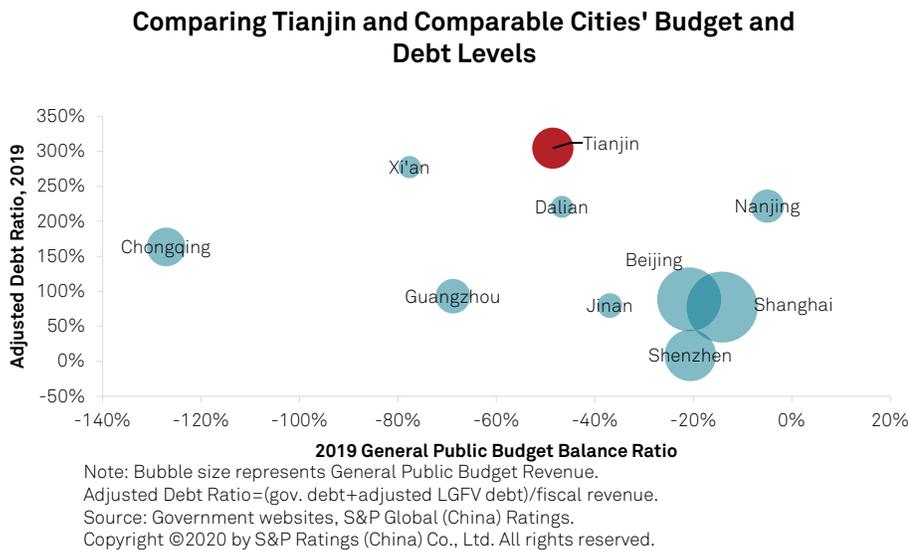
In terms of economic volume, Tianjin's GDP ranked 6th nationwide in 2019, behind Shanghai, Beijing, Shenzhen, Guangzhou and Chongqing. However, with a 4.8% GDP growth rate lower than the national average, Tianjin had the lowest growth rate among its peers, putting it under growth pressure.

Chart 3



In terms of its budget and financial position, Tianjin’s ability to balance its public budget has deteriorated in recent years. This has coincided with an increasing debt burden. In 2019, Tianjin’s general public budget balance ratio was in a medium range compared to its peers, and its debt ratio was higher. The city previously relied on fixed asset investment to spur economic growth, accumulating significant LGFV debt. When compared with China’s provincial-level regions, Tianjin is second only to Jiangsu and Zhejiang for its LGFVs’ total interest-bearing debt. In our view, without sufficient economic growth momentum, Tianjin faces an extended period of pressure to ease its LGFV debt burden.

Chart 4



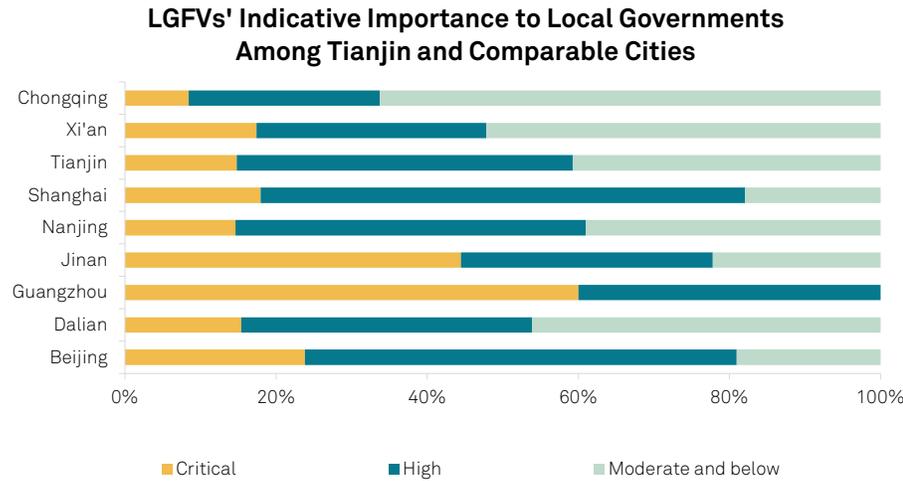
Distribution of Tianjin LGFVs’ Indicative Importance

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.

We found that the distribution of indicative importance of Tianjin LGFVs to the local government is similar to that seen in other comparable cities.

Chart 5



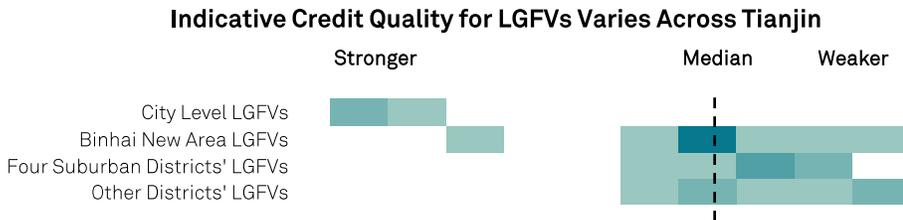
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Indicative Issuer Credit Quality

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

In our opinion, LGFVs of city-level and in Binhai New Area have stronger overall indicative issuer credit quality, with the indicative credit quality of most of these vehicles higher than the median level for Tianjin's vehicles. LGFVs in the four suburban districts (Xiqing, Jinnan, Dongli, Beichen) and other areas of Tianjin have moderate-to-lower indicative issuer credit quality. This is mainly because of weaker economic and fiscal strength in these districts, which may limit the degree of support they can provide to help sustain the development of LGFVs' business.

Chart 6



Note: 1. 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. 2. Four Suburban Districts are Xiqing, Jinnan, Dongli and Beichen Districts; Other Districts include Wuqing, Baodi, Jinghai, Ninghe and Jizhou Districts.
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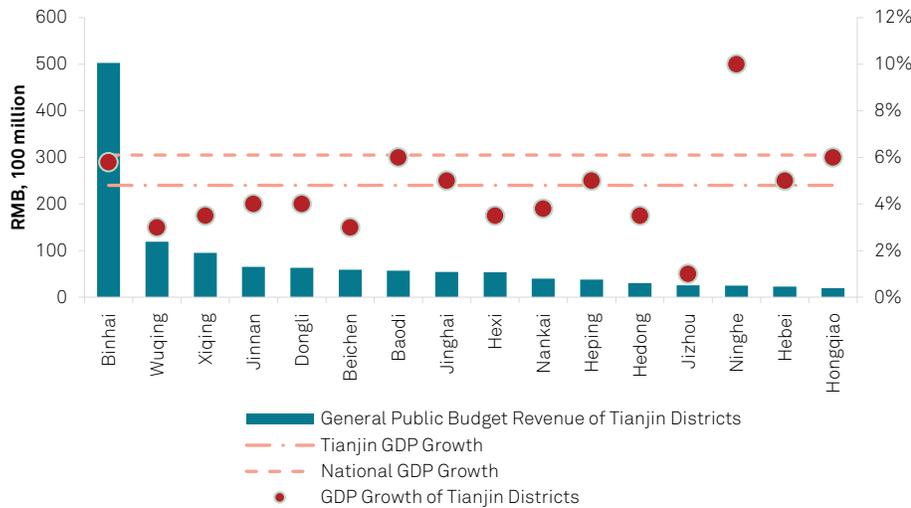
Comparing Strengths of Tianjin's Districts and Counties

In our opinion, district-level governments usually have a significant influence on the LGFVs operating under their jurisdiction in terms of factors such as the size and scope of the vehicles' business, and timeliness of government payments to LGFVs. This means that for district governments with greater comprehensive strength, we generally view their LGFVs as having stronger business risk profiles and being of higher importance.

Amid weakening growth momentum across the city in recent years, the vast majority of Tianjin's municipal districts in 2019 recorded lower economic growth than the national growth rate. Binhai New Area and Wuqing District have stronger fiscal positions than other districts, with both achieving general public budget revenue of more than 10 billion RMB in 2019. Binhai New Area's general public budget revenue was far ahead of all of Tianjin's other municipal districts. The general public budget revenues of Xiqing, Jinnan, Dongli, Beichen, Baodi, Jinghai and Hexi districts were in a range of 5-10 billion RMB, with average financial strength in each district. Nankai, Heping, Hedong, Jizhou, Ninghe, Hebei and Hongqiao districts recorded general public budget revenues of less than 5 billion RMB, and their financial strength was relatively weaker.

Chart 7

2019 General Public Budget Revenue and GDP Growth Ratio Among Different Tianjin Districts



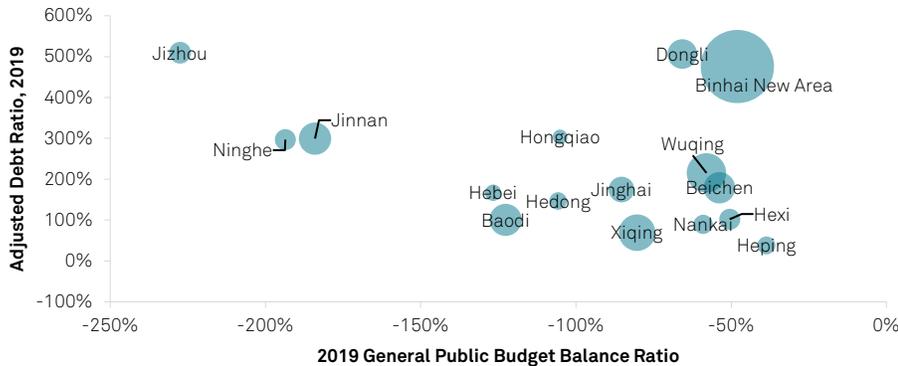
Source: Government websites.

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While Binhai New Area and Wuqing District both have higher fiscal revenue and better general public budget balance ratios, Binhai has a higher debt ratio, while Wuqing's debt ratio is moderate in comparison. Jizhou, Jinnan and Ninghe districts are weaker in terms of their general public budget balance ratios and are under some debt burden.

Chart 8

Tianjin Districts' Budget and Debt Levels, 2019



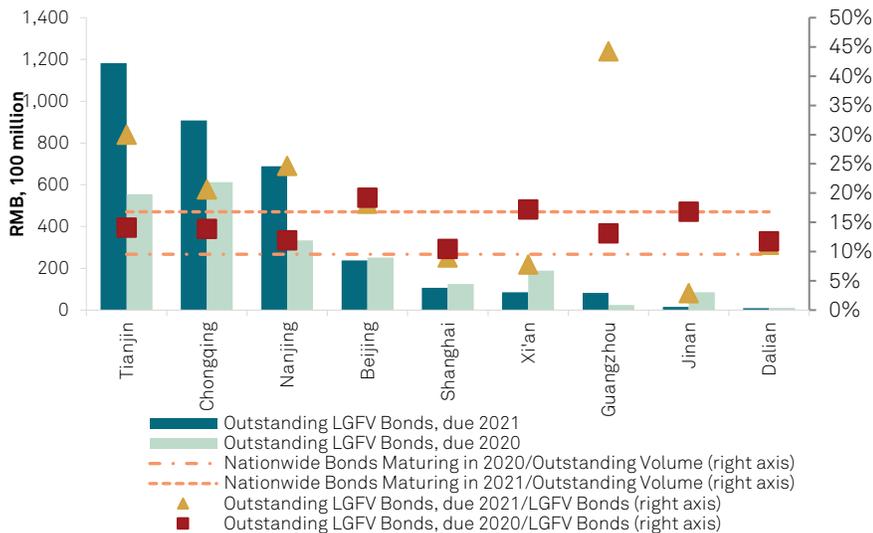
Note: Bubble size represents fiscal revenue. Adjusted Debt Ratio=(gov. debt+adjusted LGFV debt)/fiscalrevenue.
 Source: Government websites, S&P Global(China)Ratings.
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Tianjin LGFVs Likely to Face Refinancing Pressure in Next Two Years

In the next two years we expect Tianjin to face refinancing pressure from LGFV debt coming due. After comparing the scale of Tianjin’s LGFV debt outstanding and coming due with similar cities and the national average, we found that LGFV debt due by the end of 2020 and 2021 represents a significant proportion of overall outstanding LGFV debt, at a level higher than the national average. In our opinion, against the backdrop of sluggish fiscal revenue growth, ongoing debt pressure and emerging credit events in its districts, Tianjin’s LGFVs may face relatively large refinancing pressure.

Chart 9

LGFV Bonds Due 2020 and 2021 in Tianjin and Comparable Cities



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In 2019 Tianjin expanded the scale of its land sales, leading to an increase in revenue from government funds on the year before. This acted as a positive boost to the city's fiscal income. However, Tianjin's property market has consistently cooled down in recent years, with average prices by floor area dropping for two consecutive years. Taking this into account, Tianjin's revenue from government funds is likely to come under pressure in the near future.

Chart 10

Structure of Fiscal Revenue in Tianjin from 2017 to 2019

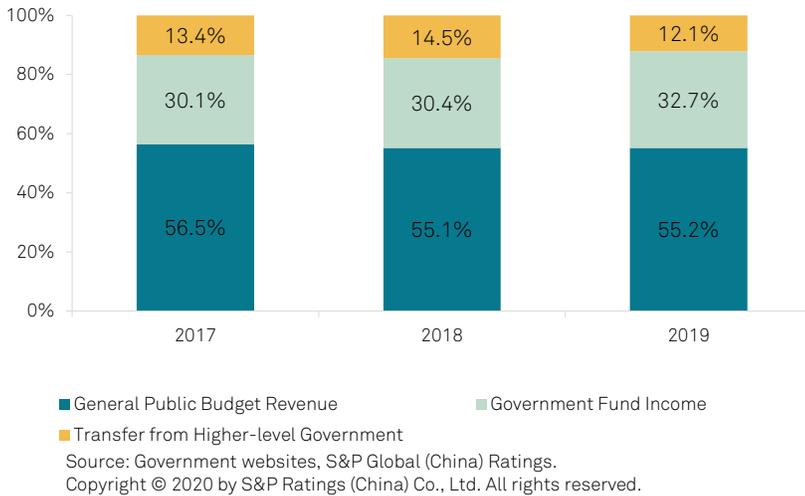


Chart 11

Average Price of Land sold in Tianjin by Area



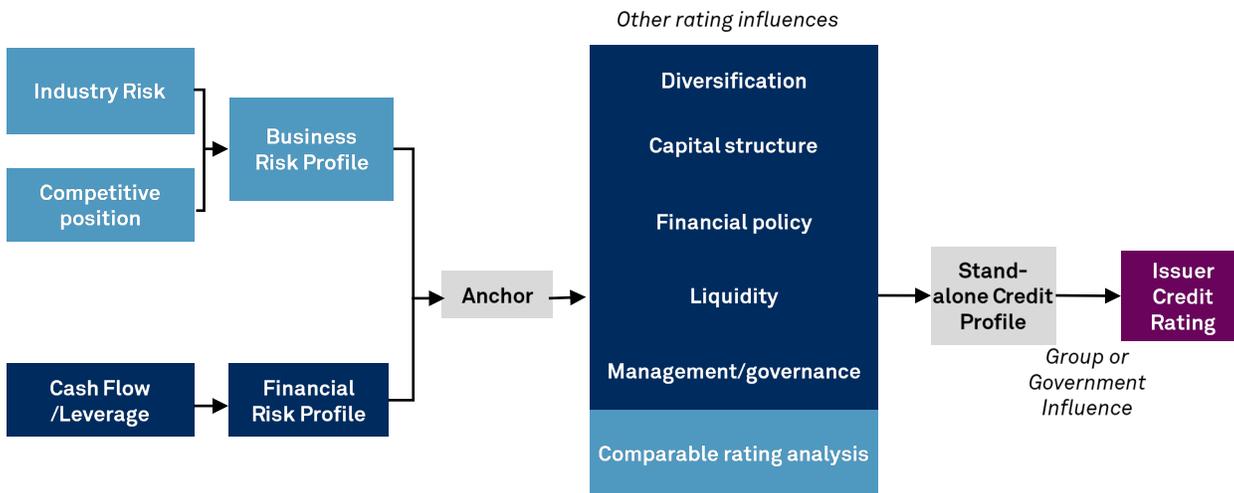
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- [Looking Beyond the Short Term – Corporate Outlook: 2020, March 4, 2020](#)
- [A Group Portrait of China's LGFVs, November 4, 2019](#)
- [Looking For The Most Resilient Players, November 4, 2019](#)

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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