

A Closer Look at China's LGFVs: Yunnan

May 21, 2020

Key Takeaways

- Following a desktop analysis of 24 local government financing vehicles (LGFVs) in Yunnan Province, we believe that the median indicative issuer credit quality of vehicles in the province is slightly lower than the national median.
- We view Kunming has the strongest indicative support capability for LGFVs among the municipal governments in the province.
- Although Dali, Qujing, and Yuxi have relatively strong indicative support capability for LGFVs, the distribution of their LGFVs' indicative issuer credit quality differs due to varied importance of the LGFVs.

To get a full picture of the overall credit quality of LGFVs in Yunnan Province, we carried out a desktop analysis of 24 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 80% of LGFVs with bonds outstanding in Yunnan, covering 10 prefecture-level cities. We believe they offer a comprehensive reflection of the overall indicative credit quality of LGFVs in Yunnan.

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

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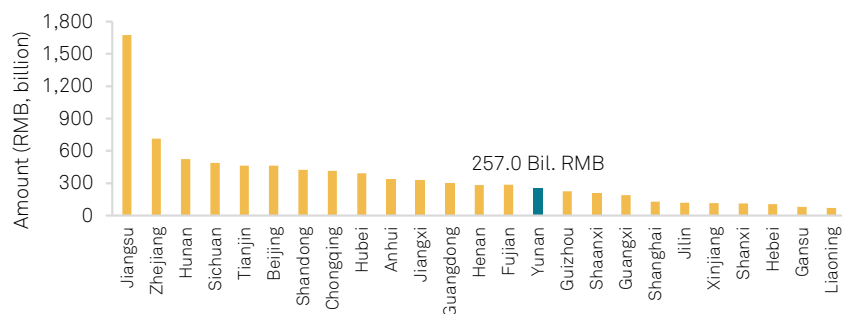
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Chart 1

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



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

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.

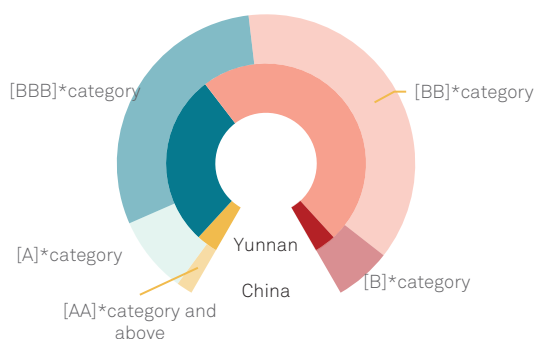
On the National Level: Yunnan LGFVs Generally Weaker

Yunnan Province is located in southwest China, bordering Myanmar, Laos and Vietnam. Its pillar industries are tobacco, tourism, electricity and minerals, etc. In 2019, total GDP was 2.3 trillion RMB, an increase of 8.1% over the previous year, ranking 18th among the 31 provinces, municipalities, and autonomous regions in the country. Its per capita GDP was 48,000 RMB in 2019, up 7.4% compared to the previous year. Its primary, secondary and tertiary industries accounted for 13.1%, 34.3% and 52.6% of GDP respectively.

The median indicative issuer credit quality of the 24 vehicles in our sample is slightly lower than that of a nationwide sample of 1700 LGFVs. We believe this is mainly because of two reasons: 1) except for Kunming, Yuxi, Qujing and Dali, which have relatively strong indicative support capacity to LGFVs, other municipal governments in Yunnan have relatively weaker indicative support capacity; 2) county or district level LGFVs and vehicles under the jurisdiction of local industrial parks account for a relatively large proportion of the sample pool, and we view the importance level of these vehicles to their local governments are generally not 'critical', thereby constraining their indicative credit quality.

Chart 2

Indicative Credit Quality: Comparing LGFVs in Yunnan 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.

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Within the Province: The Capital's LGFVs Have Stronger Overall Indicative Credit Quality

Our analysis found that the business and financial risk profiles of LGFVs are largely similar, resulting in a narrow distribution 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 authorities.

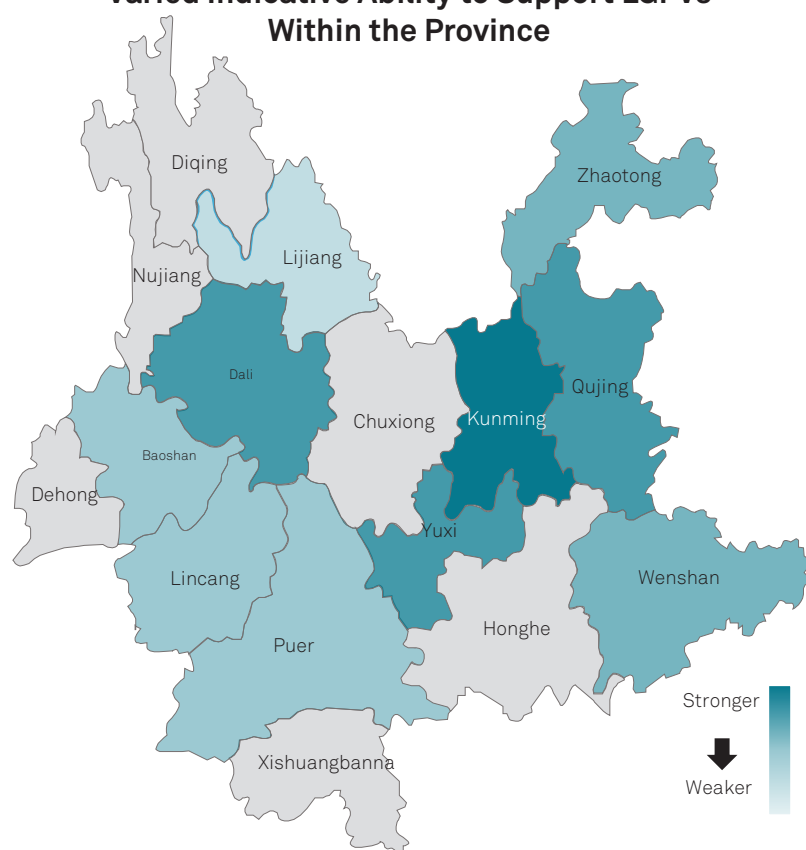
Analysis of Local Government Indicative Support Capability

When assessing local government indicative support capability, we looked at Yunnan's 10 prefecture-level cities and considered factors such as economic performance, budget, debt, liquidity, and financial management. Our analysis suggests that differences exist in the indicative support capability of local authorities in Yunnan. We view that Kunming has the strongest indicative support capability to the LGFVs within its jurisdiction among prefecture-level cities in Yunnan Province. Qujing, Yuxi, and Dali, in our view, also have relatively strong indicative support capability, while Wenshan, Zhaotong, Puer, Lincang, Baoshan, and Lijiang have relatively weaker indicative support capability.

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

Chart 3

Varied Indicative Ability to Support LGFVs Within the Province



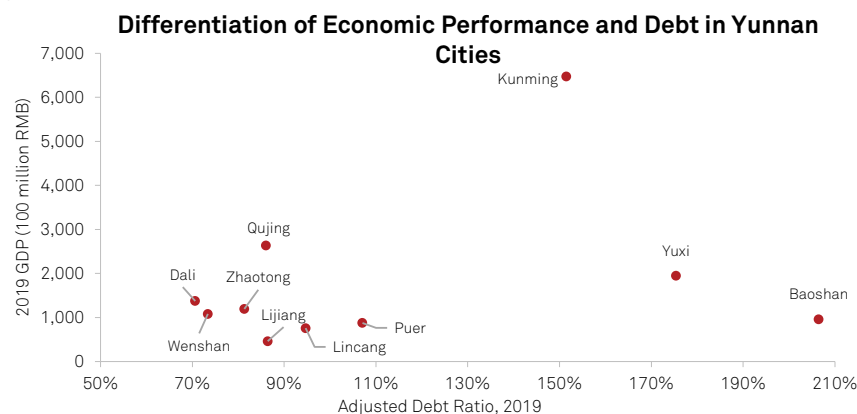
Note: Dehong represents Dehong Dai and Jingpo Autonomous Prefecture; Nujiang represents Nujiang Lisu Autonomous Prefecture; Diqing represents Diqing Tibetan Autonomous Prefecture; Dali represents Dali Bai Autonomous Prefecture; Chuxiong represents Chuxiong Yi Autonomous Prefecture; Honghe represents Honghe Hani and Yi Autonomous Prefecture; Xishuangbanna represents Xishuangbanna Dai Autonomous Prefecture; Wenshan represents Wenshan Zhuang and Miao Autonomous Prefecture. Areas in gray were not included in this study.

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We believe that the different levels of indicative support capacity among cities in Yunnan can be attributed to differences in their economic performance, financial strength, and indebtedness. As the provincial capital, Kunming's GDP ranks top within the province owing to its relatively fast development of industries such as tourism and pharmaceuticals. However, its debt level is relatively high in the province, mainly due to the relatively large amount of special purpose bonds issued in recent years. Cities like Qujing, Dali, and Zhaotong have relatively lower GDP than Kunming but with fair debt burden. Yuxi has received fewer subsidies from higher level government due to its relatively good fiscal balance, while it has a larger amount of special bonds outstanding due to relatively large size of land reserve and shantytown renovation projects, leading to higher debt ratio. Baoshan has higher debt burden mainly due to smaller general public budget revenue and larger size of LGFV debt.

Chart 4

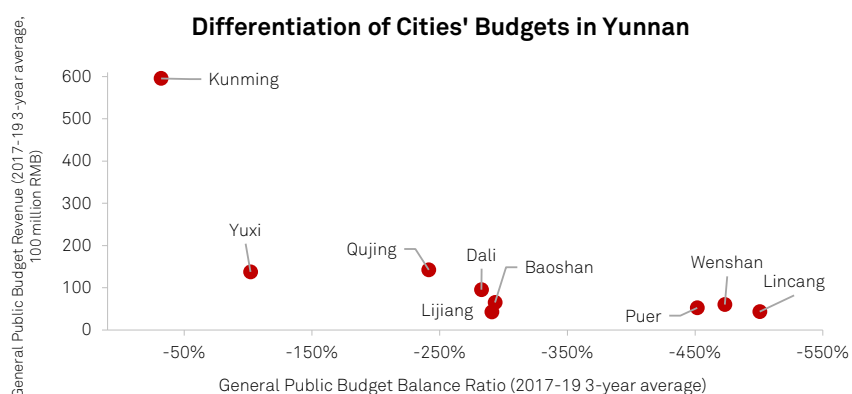


Note: Adjusted Debt Ratio = (2019 gov. debt + estimated 2019 adjusted LGFV debt) / 2019 fiscal revenue. Dali represents Dali Bai Autonomous Prefecture, Wenshan represents Wenshan Zhuang and Miao Autonomous Prefecture.

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

In terms of fiscal strength, the average general public budget revenue of Kunming in the past three years was about 60 billion RMB, much higher than that of the other local governments. Kunming's general public budget balance ratio also ranked top in the province. Except for Kunming, fiscal revenues of the other local governments were all lower than 20 billion RMB. The fiscal self-sufficiency capability of cities like Yuxi and Qujing is at provincial average. However, due to smaller economies and higher reliance on subsidies from higher level governments for general public budget revenue, cities such as Puer, Wenshan, and Lincang have below-average general public budget revenue size and fiscal self-sufficiency capability in the province.

Chart 5



Note: Dali represents Dali Bai Autonomous Prefecture, Wenshan represents Wenshan Zhuang and Miao Autonomous Prefecture.

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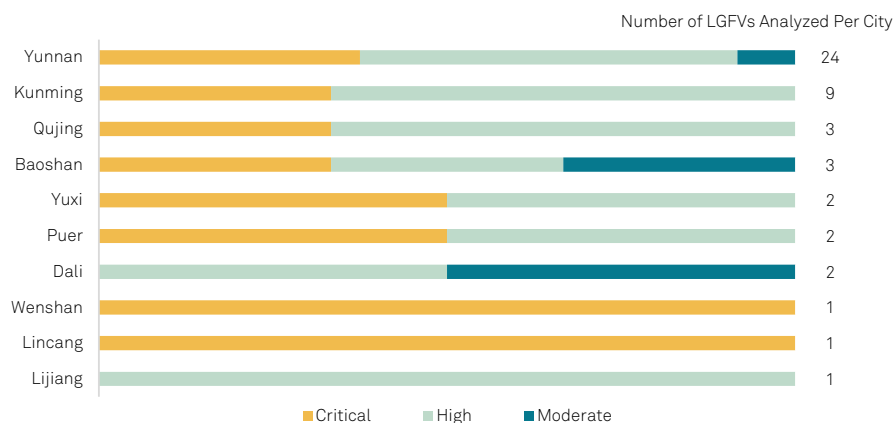
Analysis of LGFVs' Importance to Local Governments

In addition to each local authority'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 administrative level; its policy role; whether its business is not-for-profit or difficult to replace; revenue and asset scale; strategic importance, etc.

LGFVs in Yunnan are mainly at the provincial level or belong to Kunming. The nine LGFVs in Kunming are either at city level or in state-level new areas, of which we regard the indicative importance to local governments as either 'critical' or 'high' due to their relatively higher administrative level and stronger nonprofit business nature. Other local governments generally have fewer LGFVs, mainly as a result of relatively weaker economic foundation, in our view. Their LGFVs are mostly at city, county, or district level, and we view their indicative importance to their local governments largely as 'high' or 'critical', while some vehicles in district level industrial parks or provincial level economic development zones are expected to have 'moderate' indicative importance to local authorities due to lower administrative level.

Chart 6

LGFVs' Indicative Importance to Local Governments in Yunnan



Note: Dali represents Dali Bai Autonomous Prefecture; Wenshan represents Wenshan Zhuang and Miao Autonomous Prefecture.

Source: S&P Global (China) Ratings.

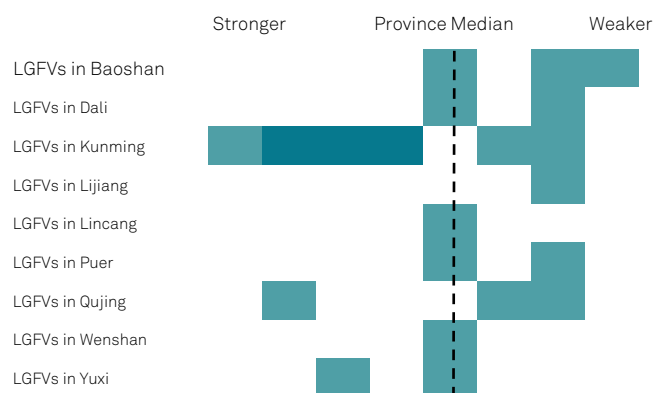
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Distribution of Indicative Issuer Credit Quality Across Different Local Authorities

Based on the above analysis, we believe that the overall indicative issuer credit quality of LGFVs in Kunming, which has relatively strong indicative support capacity, is higher than that in the other municipalities. Qujing, Yuxi, and Dali have relatively strong indicative support capacity to LGFVs within their jurisdictions while the distribution of their LGFVs' indicative issuer credit quality varies due to the different indicative importance of these LGFVs. Overall indicative credit quality of LGFVs in cities like Baoshan, Puer, and Lijiang is relatively lower, and we believe that is mainly because of the weaker indicative support capability of their local governments.

Chart 7

Indicative Credit Quality for LGFVs Varies Across Yunnan



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 Yunnan Province. Dali represents Dali Bai Autonomous Prefecture; Wenshan represents Wenshan Zhuang and Miao Autonomous Prefecture.

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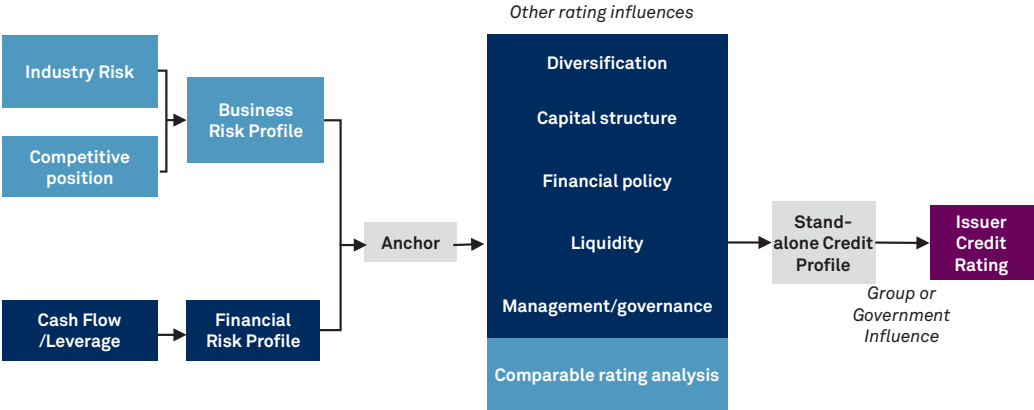
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- [Looking Beyond the Short Term – Corporate Outlook: 2020, March 4, 2020](#)
- [A Group Portrait of China's LGFVs, November 4, 2019](#)

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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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