HONG KONG, 3 September 2019. Pengyuan International has assigned the global scale foreign-currency issuer credit rating (ICR) and local-currency ICR to five provincial level local governments (LG) in China, including the municipality of Shanghai, the provinces of Jiangsu, Henan, Jilin and Shandong. The outlooks for these ratings are stable. Relative ICRs are as following:

Local Government	Foreign-currency ICR	Local-currency ICR
Shanghai	AA-	AA
Jiangsu	A+	AA-
Jilin	A	A+
Henan	A	A+
Shandong	A+	AA-

China’s administrative system mainly involves four-level of governments: central government, provincial-level governments, prefecture-level city governments, and county-level governments. Counties are then further divided into townships and villages. In China, provincial level LGs are highest level local governments that are under central government’s direct supervision and their credit profiles are closely linked to China’s sovereign rating (AA/AA+, stable), in our view. We examine Chinese LGs’ creditworthiness on five aspects: economic strength, budgetary strength, debt burden, liquidity, governance and financial management. Each of these five major credit factors is assessed on relative basis by comparing a particular LG’s credit strength to its relevant peer group, and then a weighted average score is derived to determine the LG’s credit linkage with its higher level government. Some additional adjustment may be applied to address a unique credit characteristic of a LG.

Given China’s centralized governing system, we believe Chinese central government would generally keep the creditworthiness of the provincial level LGs within a closer distance to its own creditworthiness. Even though the central government has offloaded most of economic and social responsibilities down to the LGs over the last decades, it still deeply influences the LGs’ economics and financials through a tax-sharing and reallocation system. In addition, the appointment and promotion of the local government officials are very much centralized in China through a vertically managed system controlled by the ruling party.

In our view, the provincial level LGs’ credit ratings are no more than three notches below China’s sovereign rating, with only a few provinces and centrally-supervised municipalities outperforming the peers and establishing their credit profiles to be one notch away from the sovereign rating. We believe most of the provincial level LGs’ credit ratings will fall into two to three notches below the sovereign rating given their current credit strength.

CREDIT SUMMARY

Our ratings on Shanghai municipal government reflect the city’s superior economic strength, solid budgetary performance, light debt burden and abundant liquidity. Shanghai’s rating also benefited from its friendly business environment and government’s excellent budgetary management as well as its superior ability to access external financial resources. However, given the development phase of Shanghai, we do not believe its economy and budgetary revenue growth would be able to outrun its peers in the future.

Jiangsu provincial government’s ratings reflect the province’s strong economic strength, moderate debt burden, weakening budgetary performance and tightening liquidity condition. The province’s budgetary deficit rose sharply in recent years and is expected to grow further in the next few years. Even though Jiangsu general government has the biggest absolute amount of debt outstanding among all peers, its debt burden is only moderate if assessed relative to its government revenue and GDP. Jiangsu has strong economic fundamentals but its liquidity is much weaker than most of its peers.

Our ratings on Jilin provincial government reflect the province’s poor economic strength, weak budgetary performance, moderate debt burden and tighter-than-peers liquidity condition. In addition to the weaker performance on most of per-capita based credit indicators, Jilin is also facing challenges like outflowing population and inefficient economic structure. We also believe Jilin general government’s liquid assets are not sufficient to meet its short-term debt payments and potential deficit without seeking more debt funding. On a brighter side, Jilin general government’s absolute debt is smaller, resulting in a moderate debt pressure.

Henan provincial government’s ratings reflect the province’s below-average economic strength, moderate budgetary performance and debt burden, as well as its very weak liquidity. Henan has shown some decent GDP gains in recent years, but the province depends heavily on investment to achieve economic growth. Due to Henan’s large population, some of its per-capita indicators underperformed national average, and the Henan general government’s liquidity risk is also noticeably higher than that of peers.

Our ratings on Shandong provincial government reflect the province’s strong economic strength and relatively small debt burden, as well as its deteriorating budgetary performance and very tight liquidity condition. The province has a good foundation for the development of heavy industries and its economic fundamentals remain strong, which provide the credit support to its rating. However the Shandong general government ‘s hiking budgetary deficits and tightening liquidity are two major credit weakness overhanging its ratings.

ANALYSTS CONTACT	MEDIA CONTACT	OTHER ENQUIRIES
Primary Analyst	media@pyrating.com	contact@pyrating.com

Tony Tang

+852 3615 8278
tony.tang@pyrating.com

Secondary Analyst

Jameson Zuo

+852 3615 8341
Jameson.zuo@pyrating.com

Secondary Analyst

Lisa Hu

+ 86 755 8321 0225
li.hu@pyrating.com

Committee Chair

Yun Tang

+852 3615 8297
yun.tang@pyrating.com

Date of Relevant Rating Committee: 27-Aug-2019

Additional information is available on www.pyrating.com

Related Criteria

Chinese Local Government Rating Criteria (28 June 2019)

DISCLAIMER

Unsolicited ratings – non-participative rating

Pengyuan Credit Rating (Hong Kong) Company Ltd ("Pengyuan International", "Pengyuan", "the Company", "we", "us", "our") publishes credit ratings and reports based on the established methodologies and in compliance with the rating process. For more information on policies, procedures, and methodologies, please refer to the Company's website www.pyrating.com. The Company reserves the right to amend, change, remove, publish any information on its website without prior notice and at its sole discretion.

All credit ratings and reports are subject to disclaimers and certain limitations. CREDIT RATINGS ARE NOT FINANCIAL OR INVESTMENT ADVICE AND MUST NOT BE CONSIDERED AS A RECOMMENDATION TO BUY, SELL OR HOLD ANY SECURITIES AND DO NOT ADDRESS/REFLECT MARKET VALUE OF ANY SECURITIES. USERS OF CREDIT RATINGS ARE EXPECTED TO BE TRAINED FOR INDEPENDENT ASSESSMENT OF INVESTMENT AND BUSINESS DECISIONS.

CREDIT RATINGS ADDRESS ONLY CREDIT RISK. THE COMPANY DEFINES THE CREDIT RISK AS THE RISK THAT THE RATED ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS MUST NOT BE CONSIDERED AS FACTS OF A SPECIFIC DEFAULT PROBABILITY OR AS A PREDICTIVE MEASURE OF A DEFAULT PROBABILITY. Credit ratings constitute the Company's forward-looking opinion of the credit rating committee and include predictions about future events which by definition cannot be validated as facts.

For the purpose of rating process the Company obtains sufficient quality factual information from sources believed by the Company to be reliable and accurate. The Company does not perform an audit and undertakes no duty of due diligence or third-party verification of any information it uses during the rating process. The issuer and its advisors are ultimately responsible for the accuracy of the information provided for the rating process.

Users of the Company's credit ratings should refer to the rating symbols and definitions published on the Company's website. Credit ratings with the same rating symbol may not fully reflect all small differences in the degrees of risk, because credit ratings are relative measures of the credit risk.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF ANY INFORMATION GIVEN OR MADE BY THE COMPANY IN ANY FORM OR MANNER. In no event shall the Company, its directors, shareholders, employees, representatives be liable to any party for any damages, expenses, fees, or losses in connection with any use of the information published by the Company.

The Company reserves the right to take any rating action for any reasons the Company deems sufficient at any time and in its sole discretion. The publication and maintenance of credit ratings are subject to availability of sufficient information.

The Company does not receive compensation for its unsolicited credit ratings. The rated entity **did not** participate in the rating process. The unsolicited credit rating **has not** been disclosed to the rated entity or to its related party and, following such disclosure, the credit rating **has not** been amended before being issued.

The Company reserves the right to disseminate its credit ratings and reports through its website, the Company's social media pages and authorised third parties. No content published by the Company may be modified, reproduced, transferred, distributed or reverse engineered in any form by any means without the prior written consent of the Company.

The Company's credit ratings and reports are not indented for distribution to, or use by, any person in a jurisdiction where such usage would infringe the law. If in doubt, please consult the relevant regulatory body or professional advisor to ensure compliance with applicable laws and regulations.