



Hunan Province In Focus

S&P Global
Ratings

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This report does not constitute a rating action

Key Takeaways

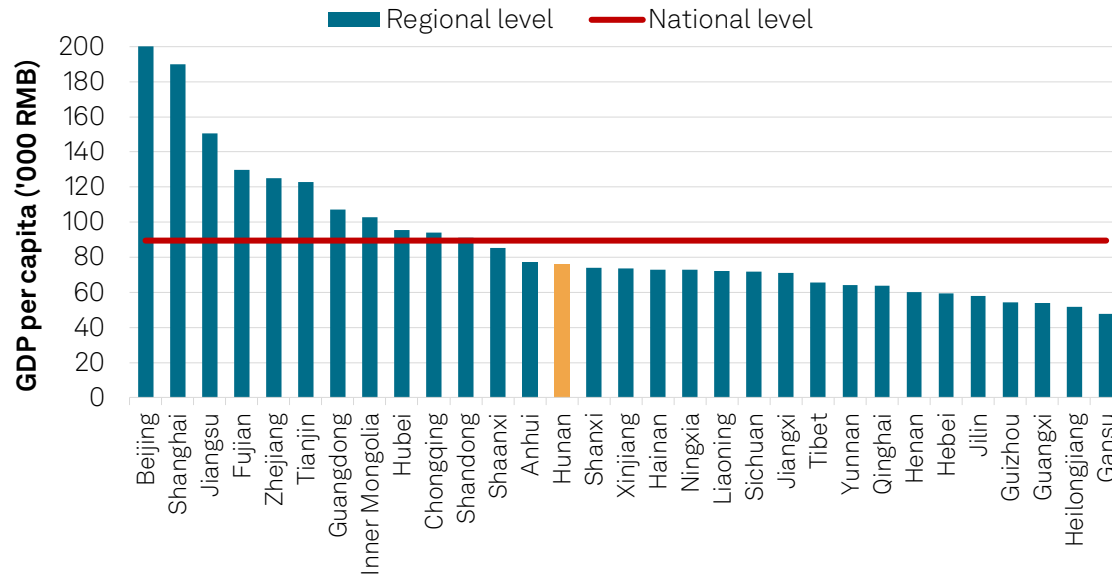
- In our view, the credit profiles of Hunan's local and regional governments (LRGs) will keep improving toward the sector average, thanks to their measures to control debt risks since 2018. In contrast, peers in each tier group have generally deteriorated over the same period.
- Hunan's income level should stabilize at the average range for peers, given we expect its economic growth to return to the national average as it transitions to industrial- from infrastructure-led growth over the mid to long term.
- Changsha stands out with its strong growth momentum from industrial upgrades and its resilient consumption sector. Other cities have weaker creditworthiness, constrained by lower income and higher debt burden from large state-owned enterprises (SOEs).
- Hunan's provincial government and Changsha city have sufficient capacity to support SOEs; other cities face tightening capacity. As a result, LRG support for SOEs will be differentiated and is likely for activities with a significant policy mandate.
- The debt growth of Hunan SOEs slowed in 2021-2023 compared with 2019-2020, given the province's resolution to contain credit risks. With the exception of Changsha, our sampled city-level SOEs have raised about 30%-40% of debt from the bond market, access to which is crucial.
- Asset-quality pressure will likely continue to weigh on the creditworthiness of Hunan's regional banks over the next one to two years. Elevated forborne loans and property-related exposure are among pockets of risk.
- Banks that have sizable exposure outside Changsha or in regions where economic prospects remain subdued will feel more pain.

Regional Highlights

Inter-regional analysis

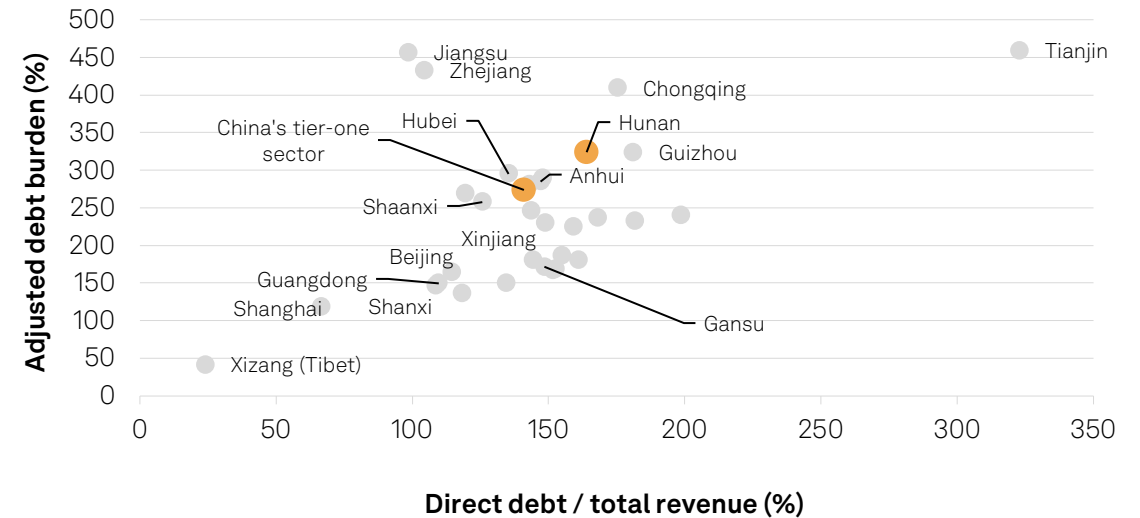
- Hunan's GDP per capita is 15% lower than the national average, hindered by its inland location and slower urbanization.
- Its debt burden is high among peers, caused by historically reliance on debt-financed infrastructure investments. But stabilization signs have emerged recently, with slower debt growth for the governments and their SOEs, given stricter control over new projects.

Hunan's income is slightly weaker than China's average



Data as of December 2023. RMB--Chinese renminbi. Sources: LRGs' bureau of statistics, S&P Global Ratings.

Government debt burden is weaker among peers



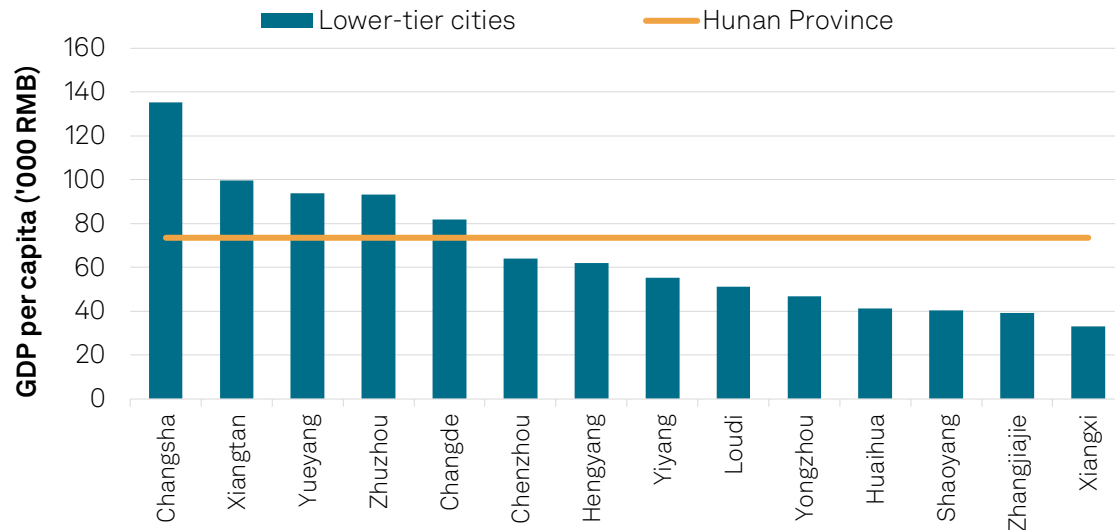
Data as of December 2023. We use whole region data to identify regional features, which may not directly lead into the credit metrics of LRGs. Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, Wind, S&P Global Ratings.

Regional Highlights

Intra-regional analysis

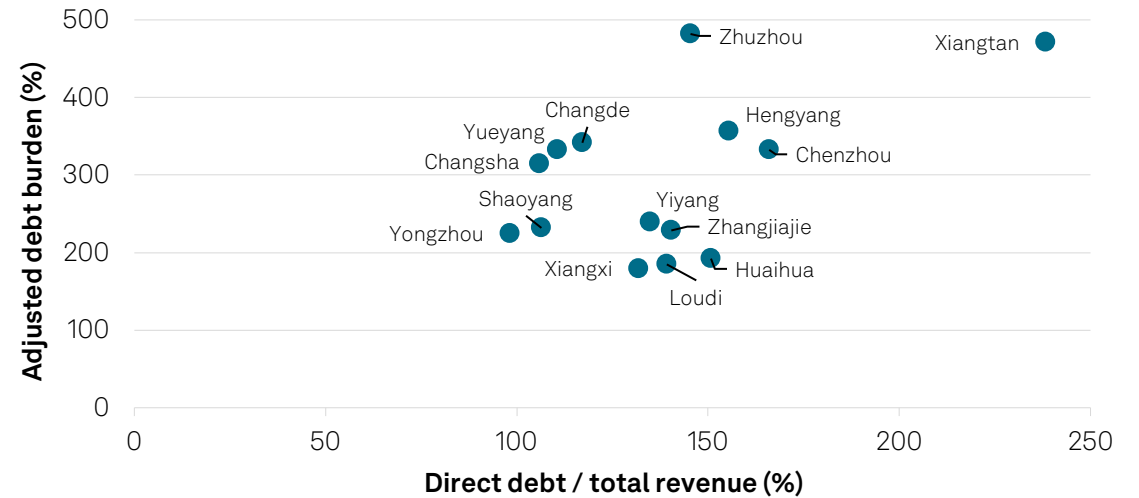
- Hunan has large income disparity. Changsha stands out with its advanced industrial base, and nearby cities like Xiangtan, Zhuzhou, and Yueyang benefit from the spillover effect. Remote cities have lower income.
- Changsha, as the capital city of Hunan, is the growth engine. Robust revenue generation underpins its stronger debt metrics. Conversely, other cities in the province are weaker than peers, either constrained by a higher debt burden or weaker economy.

Growth momentum mostly sustained from central cities



Data as of December 2023. RMB--Chinese renminbi. Sources: LRGs' bureau of statistics. S&P Global Ratings.

Cities in Hunan are generally highly indebted



Data as of December 2022. We use whole city data to identify regional features, which may not directly lead into the credit metrics of LRGs. Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance. Wind. S&P Global Ratings.

Our Research Scope

- Our series on Chinese administrative regions uses publicly available information to provide analytical opinions based on key credit metrics. These LRGs form the backbone of the mainland economy and, together with government-related entities (GREs) and financial institutions (FIs), are among China's highest-volume debt issuers.
- We distinguish between "LRG level" and "whole region" data. We apply our analysis on an individual basis, which means we largely focus on LRG-level government financial statements, with the whole-region data serving as a supplement to capture risks associated with lower tier governments. In its simplest sense, province-level data are the primary figures under analysis. We round out our views using whole province data, which encompass the cities, districts, and other lower-tier governments within the region.
- Measures of creditworthiness. For LRGs, we assess creditworthiness of non-U.S. LRGs by combining our assessment of the institutional framework and individual credit profiles on governments to arrive at the anchor, a core element of our credit assessment. We cover the economy, budgetary performance, and debt burden, as three of the five credit factors to assess the individual credit profile on an LRG.
- Our analysis of the other two factors--financial management and liquidity--typically requires substantial judgment and interpretation of limited public data, but we generally view these two factors as supporting the creditworthiness of most LRGs.
- For GREs, our analysis largely focuses on government capacity to support SOE debt as a sector, and not government capacity to pay its direct debt. We identify three measures to gauge government capacity to support its SOE sector: SOE size, SOE creditworthiness, and LRG control over nonbudget resources.
- Our metrics only refer to non-FI SOEs. We use data provider Wind covering 70%-80% of LRG-controlled SOEs, measured by aggregated assets stated by Chinese government.
- Our analysis does not encompass wider financial resources that LRGs control. Debt and funding options vary widely in their form and complexity and cannot be easily captured using simple metrics.
- For FIs, we assess stand-alone credit profiles based primarily on our analysis of the four individual credit factors: business position, capital and earnings, risk position, and funding and liquidity.

Hunan Provincial Government



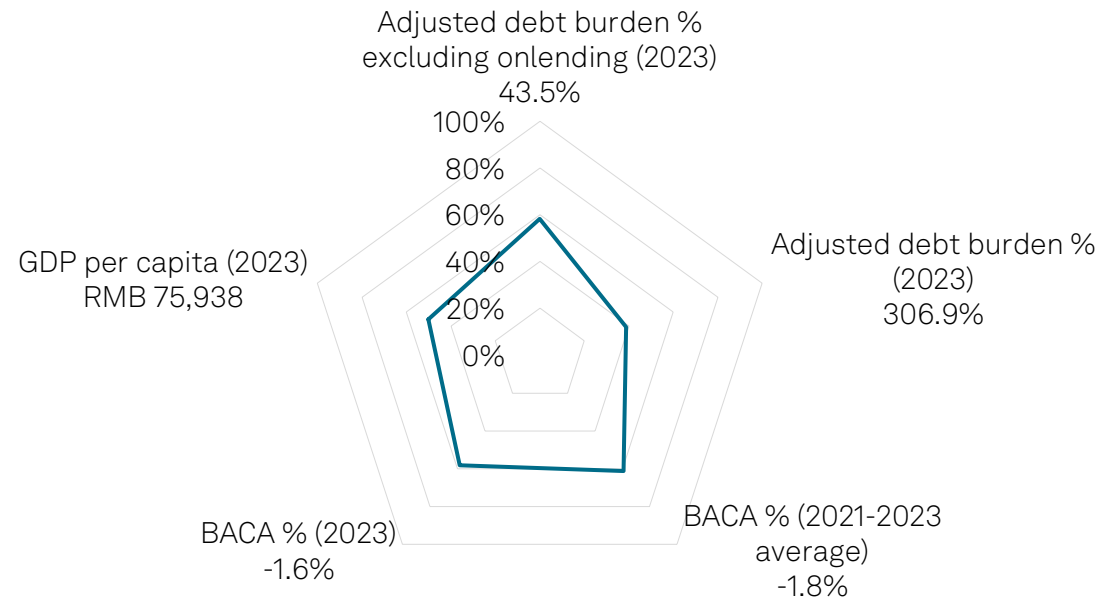
Provincial Government

Overview

- We categorize the Hunan provincial government as a tier-one government operating within a “very predictable and well balanced” institutional framework.
- With lower income level but stronger growth potential, Hunan’s individual credit profile is average among Chinese tier-one governments.
- Decelerated capital investment and large central government transfers help repair Hunan’s budgetary performance.
- Large on-lending to lower tiers has weighed on Hunan’s creditworthiness, which is partially driven by special refinancing bonds used to swap lower-tier LRGs’ hidden debts in 2023.

Overall average credit profile constrained by higher debt on-lent to lower tiers

Local rank (higher % indicates stronger relative credit profile)



Rank among China's 36 tier-one LRGs. Please refer to our glossary for a definition of terms.
Sources: LRGs' bureau of finance and bureau of statistics. Wind. S&P Global Ratings.

Provincial Government

Measures of creditworthiness



Economy

- GDP per capita is 15% below the national average, whereas disposable income per capita is 8% lower.
- Transition from infrastructure- to industrial-led growth model has temporarily slowed Hunan's growth to lag the national level.



Financial management

- We assume financial management and political framework are of average quality.
- General guidance is set out for financial planning.



Debt burden

- High debt burden largely driven by borrowings for lower-tier LRGs.
- SOEs contingent liabilities have manageable risks, given diversification, self-supportive credit profiles, and differentiated government support.



Liquidity

- Liquidity is satisfactory, given the government and its related agencies control large amounts of deposits and liquid assets.
- Access to the domestic bond market is strong. Bond risk premiums have dipped over the past few years--to 2.9% in 2024 from 3.6% in 2019--on par with more developed tier-one governments.



Budgetary performance

- Budgetary performance is average, supported by large central government transfers and decelerating capital expenditure.
- Fiscal deficit is likely to stay modest, supported by moderate growth on capital projects.

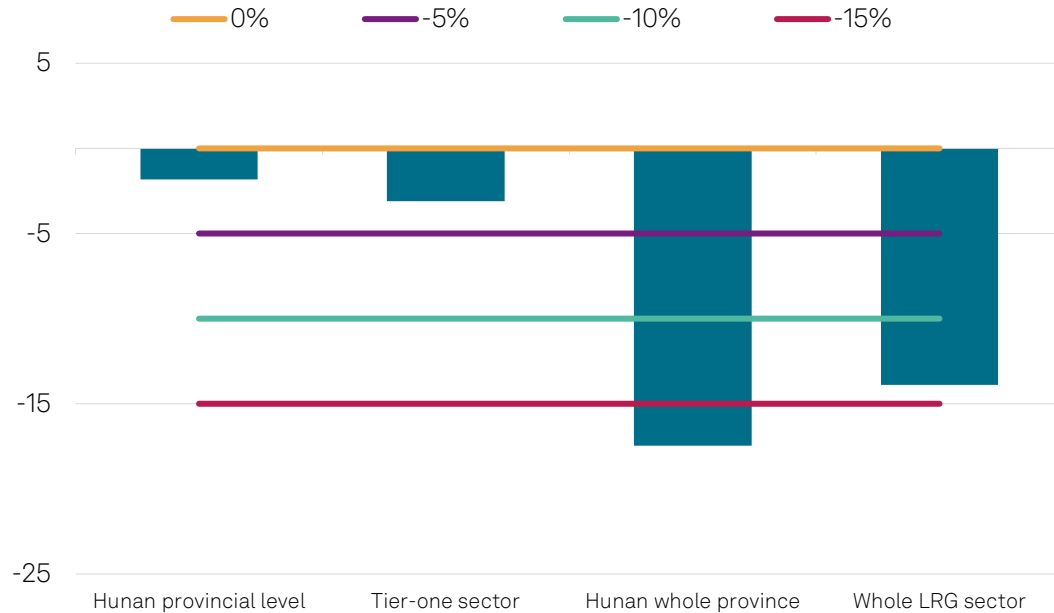
LRG--Local and regional government. SOE--State-owned enterprise. Source: S&P Global Ratings.

Provincial Government

Measures of creditworthiness

Sluggish land sales has led to larger deficits at lower tiers than provincial level

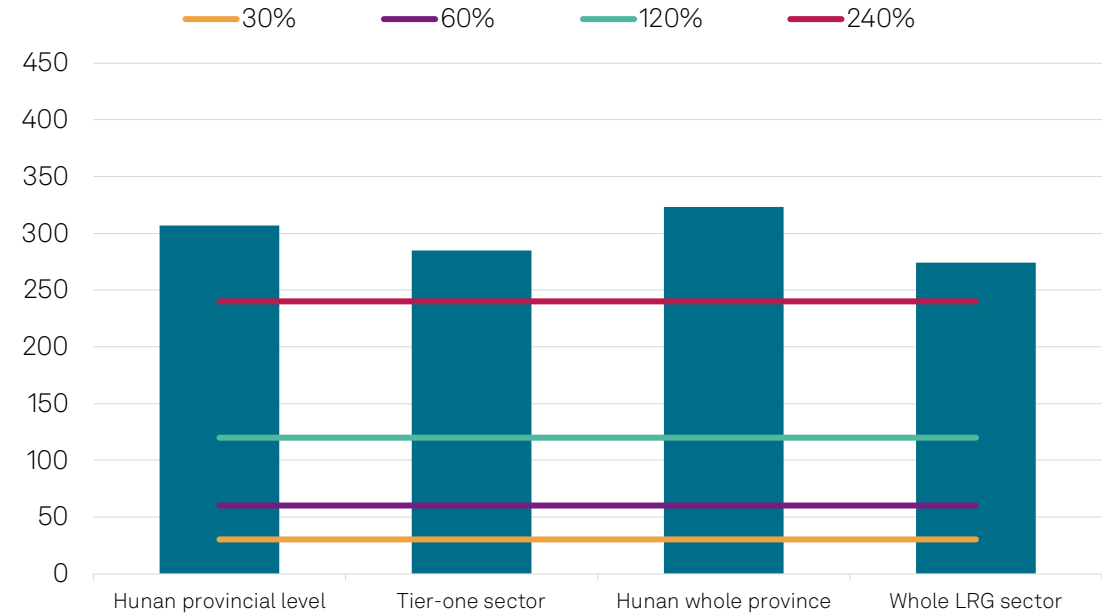
BACA % (2021-2023 average)



BACA %: adjusted total revenue subtracted by adjusted total expenditure, as a percentage of adjusted total revenues. Thresholds are extracted from "Methodology For Rating Local And Regional Governments Outside of The U.S." Sources: LRGs' bureau of finance, Wind, S&P Global Ratings.

Lower-tier debt risks are higher but are stabilizing with recent spending controls

Adjusted debt burden % (2023)



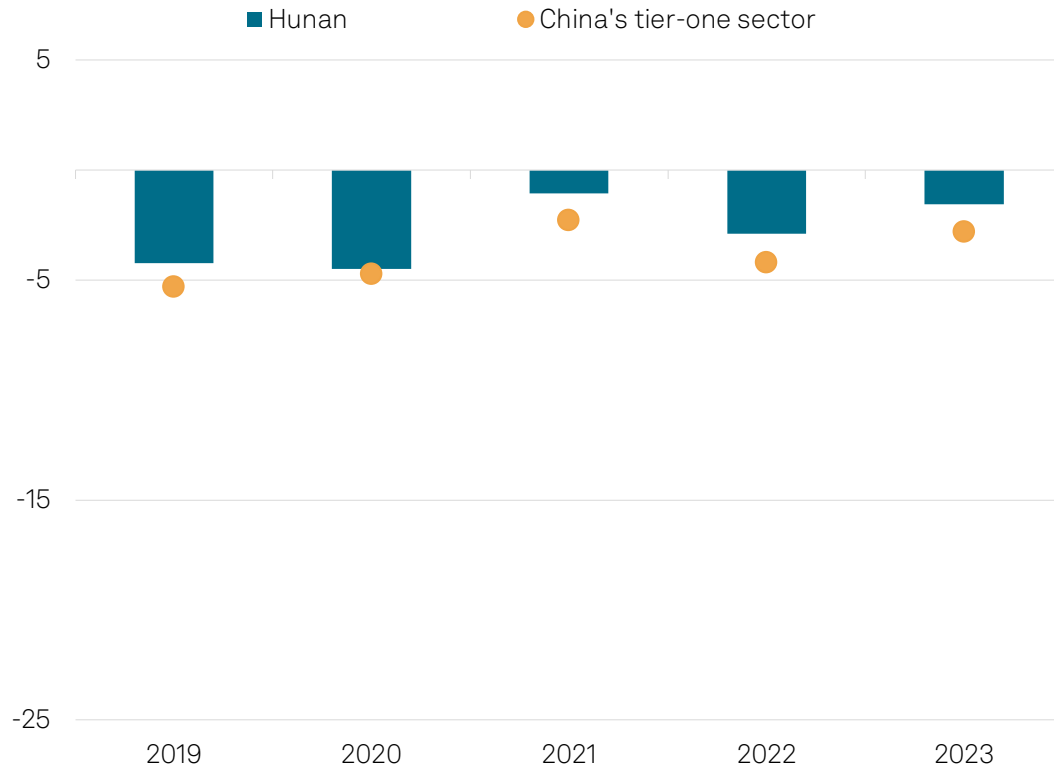
Thresholds are extracted from "Methodology For Rating Local And Regional Governments Outside of The U.S." Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, Wind, S&P Global Ratings.

Provincial Government

Measures of creditworthiness

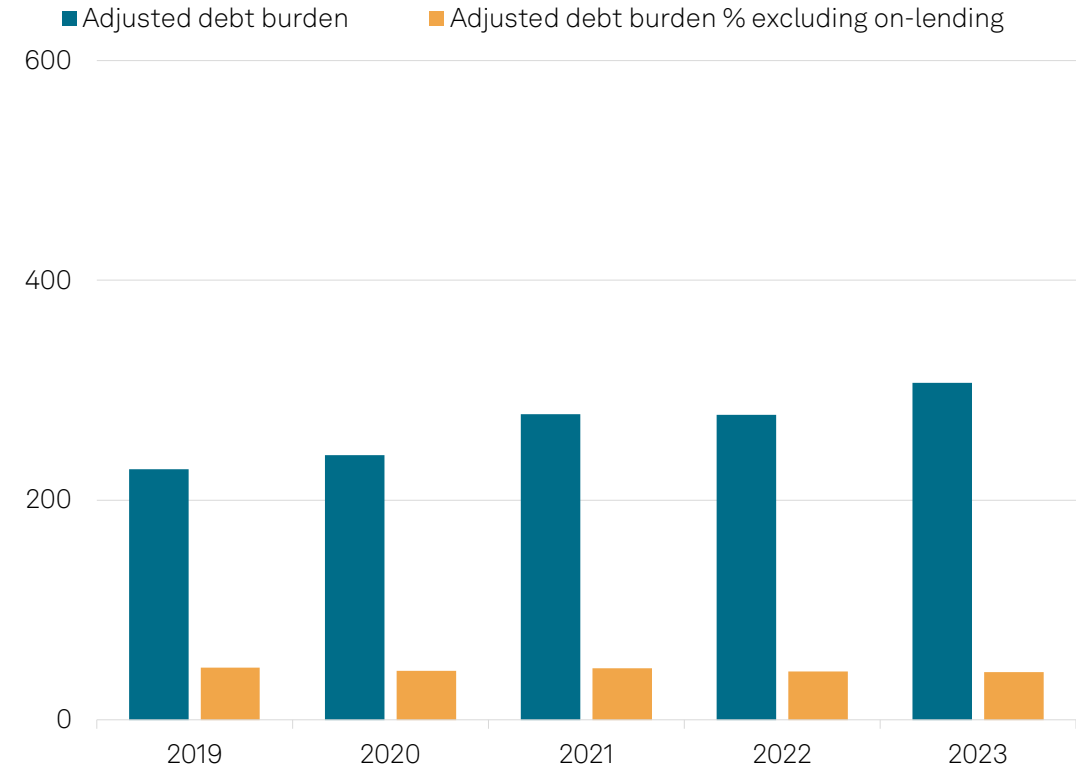
Fiscal performance continues to outperform sector

BACA (%)



Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, S&P Global Ratings.

Debt burden driven by on-lending to lower-tier LRGs (%)

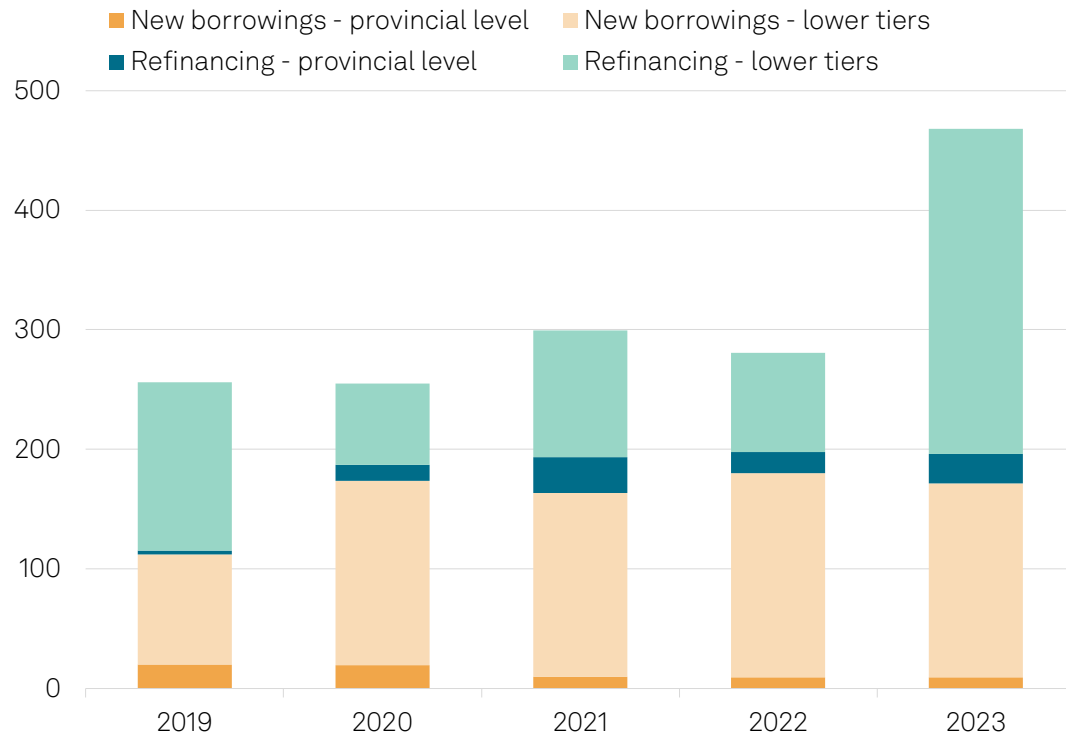


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Provincial Government

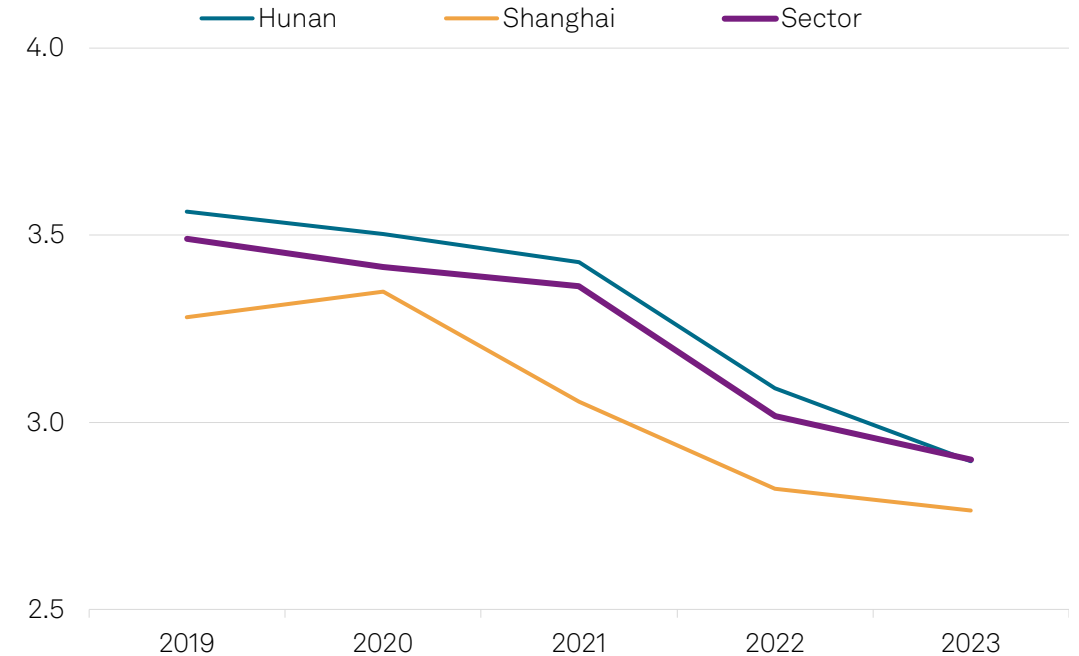
Measures of creditworthiness

Total issuance has been driven up by special refinancing bonds at lower tiers (bil. RMB)



Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, S&P Global Ratings.

Risk premiums follow sector trend with narrowing gaps
Average coupon rate (%)



Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, Wind, S&P Global Ratings.

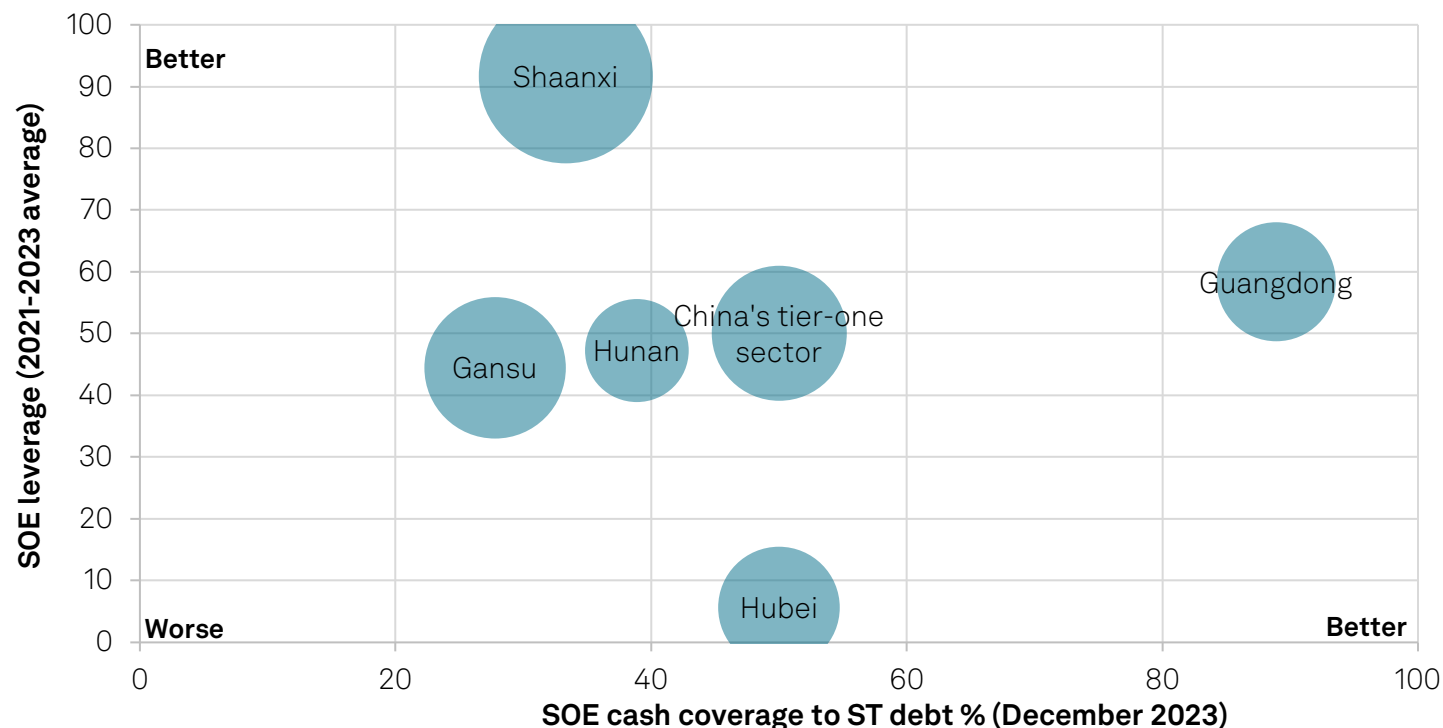
Provincial Government

Measures of SOE support

- Relatively sufficient capacity at the provincial level supports the SOE sector in a scenario of modest stress. We believe such support is likely to be differentiated.
- Hunan's provincial-level SOE debt, relative to LRG total revenue, is smaller than the sector average; and their creditworthiness is weaker than average.
- This is primarily because their asset-heavy business requires large upfront capital expenditure.
- SOE debt comprises 23% at the provincial level (tier one), 52% at the city level (tier two), and 25% at the district level (tier three).

Hunan's SOE sector has weaker cash coverage than the national average

Local rank (higher % indicates stronger relative credit profile)



Rank among China's 36 tier-one LRGs. Higher SOE leverage indicates higher rank and lower leverage among SOEs. Bubble size represents SOE debt % LRG total revenue. Please refer to our glossary for a definition of terms. Sources: Wind, S&P Global Ratings.

Provincial Government

Key features of Hunan SOEs



SOE debt size

- Provincial-level SOE debt is smaller than that of domestic peers.
- SOE businesses are mostly asset-intensive operations e.g. transportation (65%), construction (17%), steel, energy, media, mining, etc.



SOE creditworthiness

- SOE leverage appears aggressive by international standards and somewhat higher than China peers.'
- Top SOEs are deleveraging, given tighter controls on new transportation infrastructure projects.



Administrative capacity to support SOEs amid stress

- The provincial government has not reported any defaults by SOEs under its control.
- SOE management framework is largely aligned with central government guidelines.



Financial resources to support SOEs

- The provincial government has capacity to support its SOEs in a stress scenario, but the support will be highly differentiated.
- Sufficient level of liquid assets under both government and SOEs accounts.

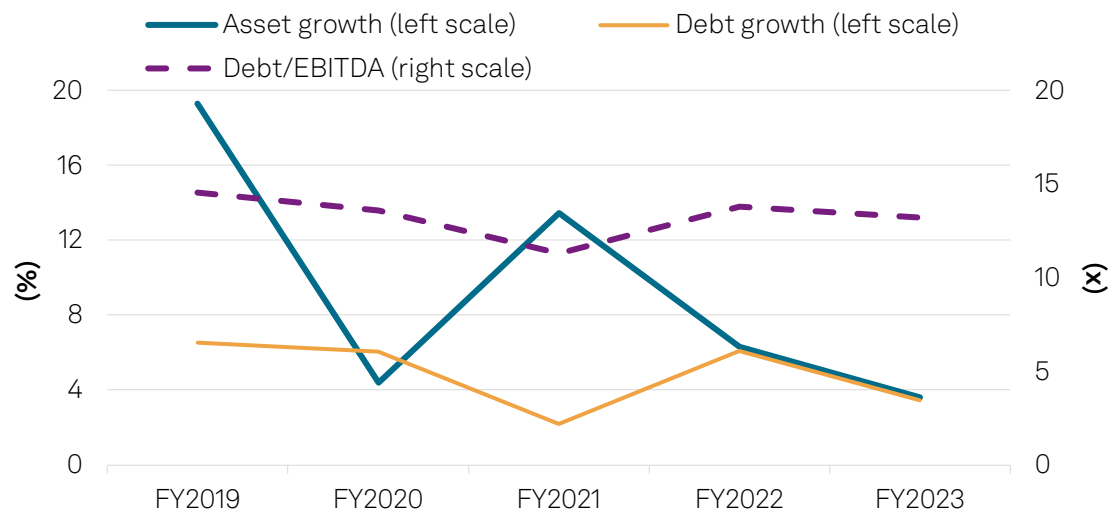
SOE--State-owned enterprise. LRG--Local and regional government. Source: S&P Global Ratings.

Provincial Government

Hunan government's careful debt management has led to a stable financial leverage of its SOEs.

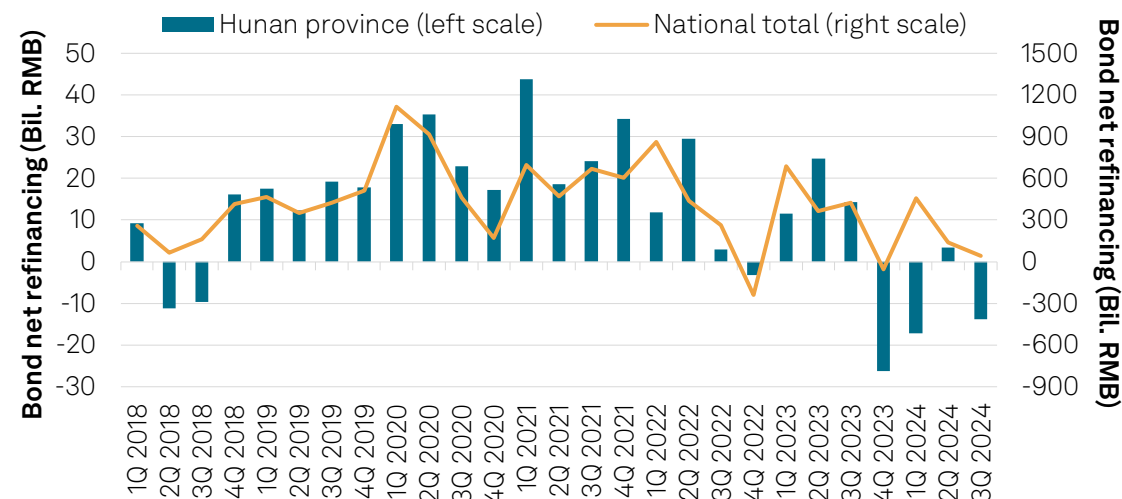
- We believe stringent debt management of Hunan government since 2018 led to stable leverage of provincial SOEs in the past five years. Measures included swapping SOEs' debt with government debt, coordinating financial institutions for SOE refinancing, consolidating SOEs, setting up a debt resolution fund, and managing funding costs of SOEs.
- Hunan's largest corporate SOE, Hunan Provincial Expressway Group, contributed about half of provincial-level SOE assets and 70% of debt. The company has high leverage with five-year average debt-to-EBITDA of 23x, due to high capital spending needs.

Hunan provincial SOEs' paced development led to a stable leverage



Financials aggregate provincial-level SOEs only. Source: Wind, S&P Global Ratings.

Hunan SOEs' issuance cost is among the average in all provinces in China



Hunan SOE domestic bond quarterly net refinancing amount (whole province all levels). Source: Wind, S&P Global Ratings.

City Governments



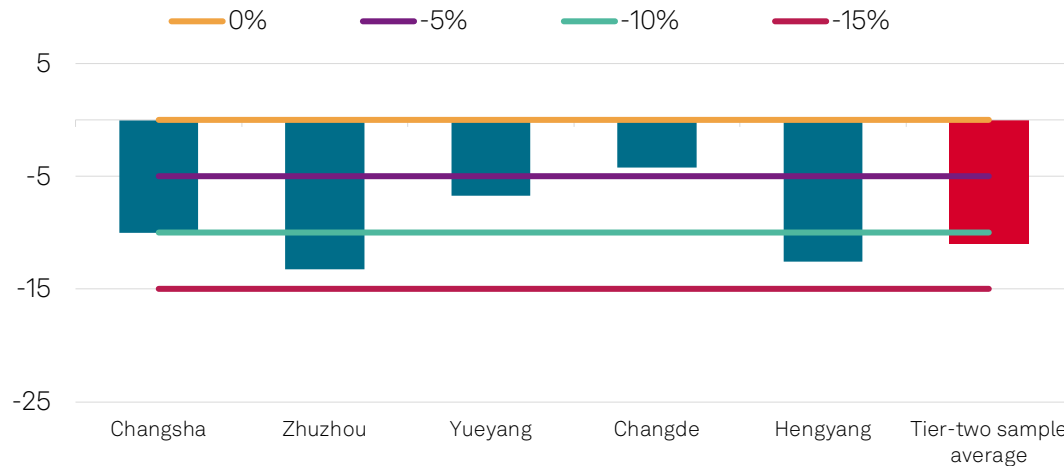
City Governments

Overview—Changsha’s credit profile stands out, while others are converging to largely in line with local peers

- We categorize 14 city governments under Hunan as tier-two local governments, with an institutional framework of “evolving but balanced”
- Five city governments are selected for comparison; they account for 62% of Hunan’s GDP.
- Changsha stands out with greater fiscal resources and lower debt. Other cities’ creditworthiness are constrained by lower income levels.

Deficits are mostly moderate compared with peers’

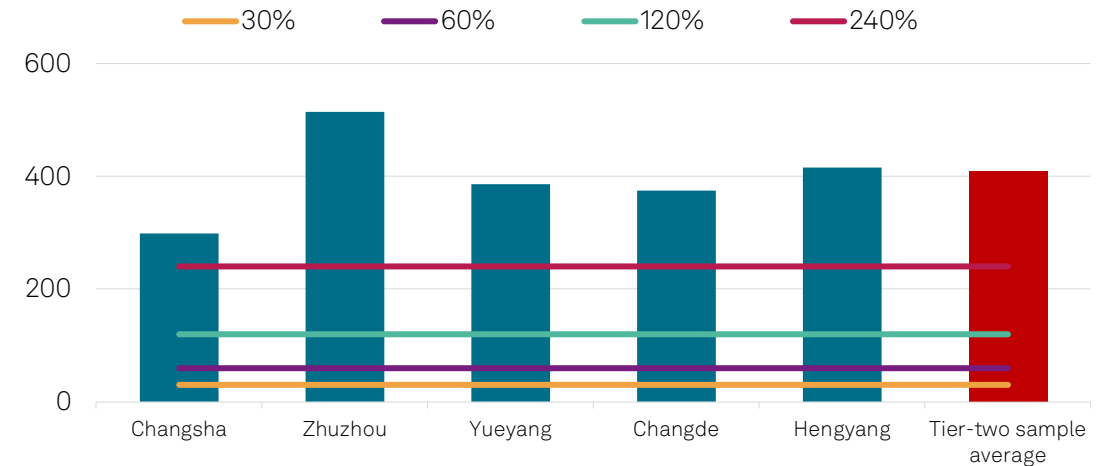
BACA % (2020-2022 average)



Thresholds are extracted from “[Methodology For Rating Local And Regional Governments Outside of The U.S.](#)” Please refer to our glossary for a definition of terms. Sources: LRGs’ bureau of finance, S&P Global Ratings.

Debt levels are very high by global standards but stabilizing

Adjusted debt burden % (2022)



Thresholds are extracted from “[Methodology For Rating Local And Regional Governments Outside of The U.S.](#)” Please refer to our glossary for a definition of terms. Sources: LRGs’ bureau of finance, Wind, S&P Global Ratings.

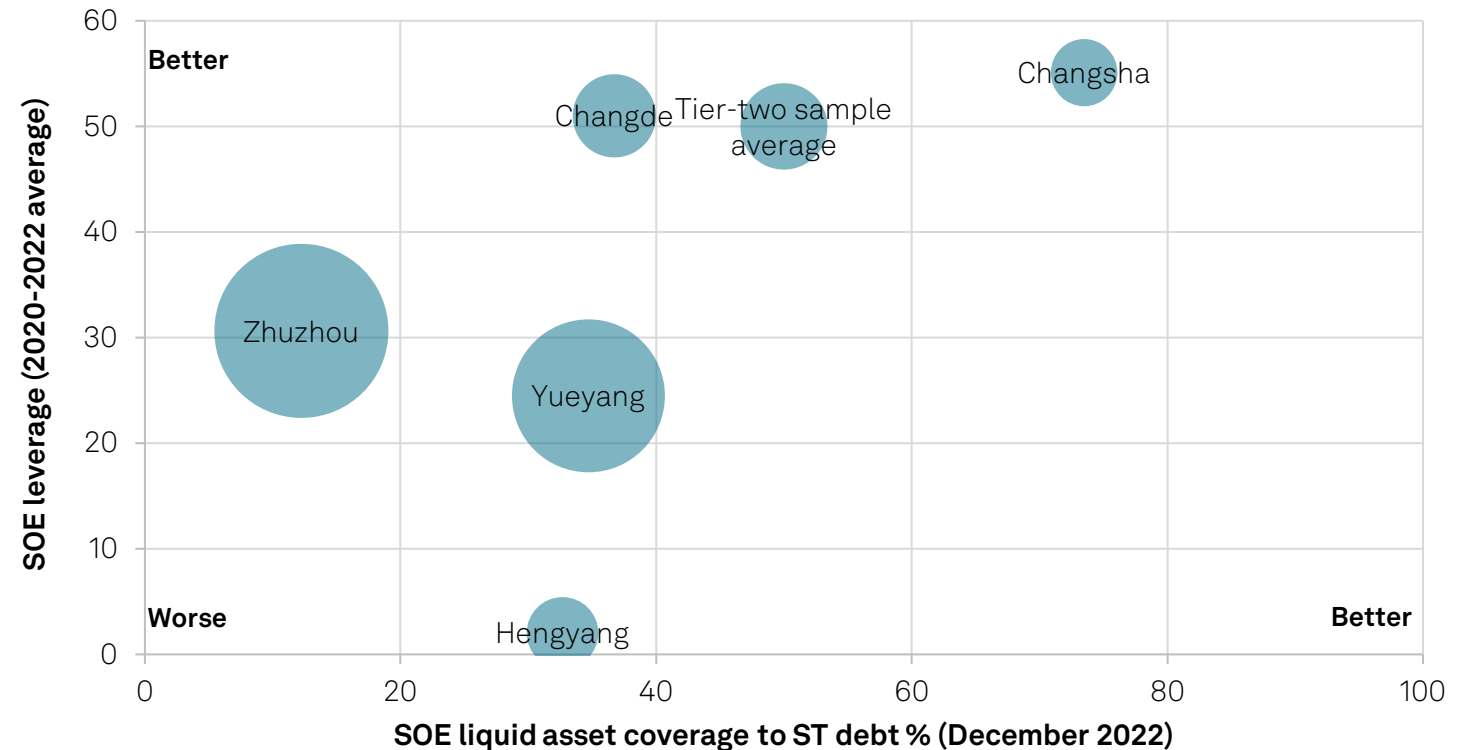
City Governments

Measure of SOE support

- In our view, the capacity of city governments in Hunan to provide timely and sufficient support to SOEs is more constrained than that of other Chinese tier-two LRGs.
- Changsha city government has one of the strongest financials of domestic peers in terms of leverage and liquidity.
- Zhuzhou and Yueyang face tightening capacity, given their much larger SOE debt exposure and weaker metrics caused by historical heavy infrastructure investment.
- The leverage and cash coverage of SOEs under Hunan city government are generally weaker than that of the tier-two sector.

Hunan city SOEs have weaker metrics than other China tier-two governments

Local rank (higher % indicates stronger relative credit profile)

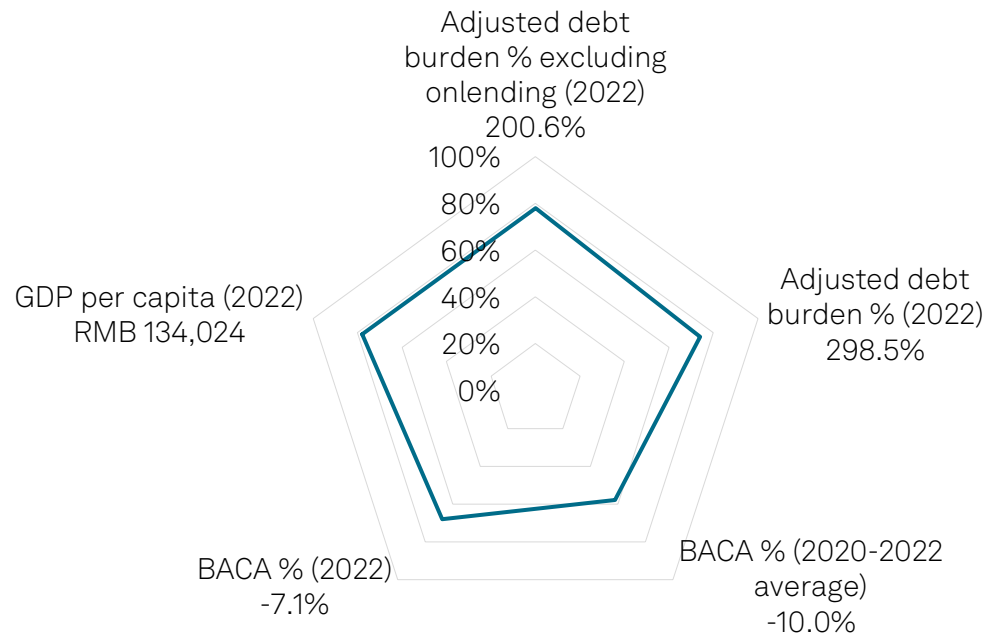


Rank among 51 Chinese tier-two LRGs. Higher SOE leverage % indicates higher rank and lower leverage among SOEs. Bubble size represents SOE debt % LRG total revenue. Please refer to our glossary for a definition of terms. Sources: Wind, S&P Global Ratings.

City Governments | Changsha

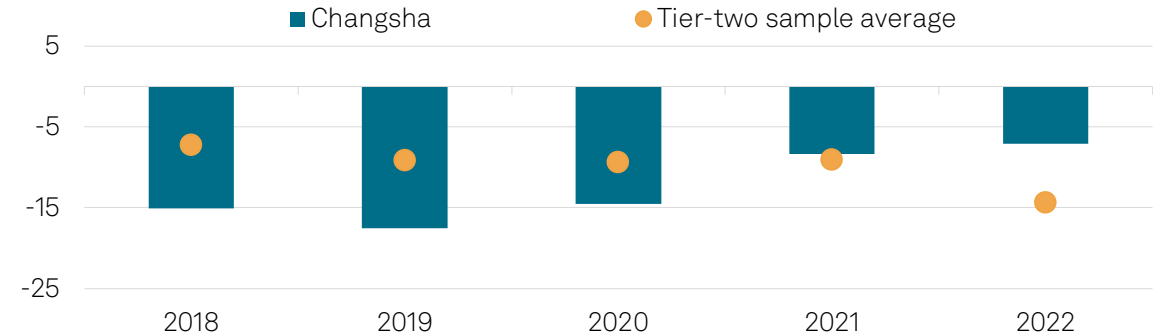
Changsha has a strong credit profile among peers

Local rank (higher % indicates stronger credit profile)



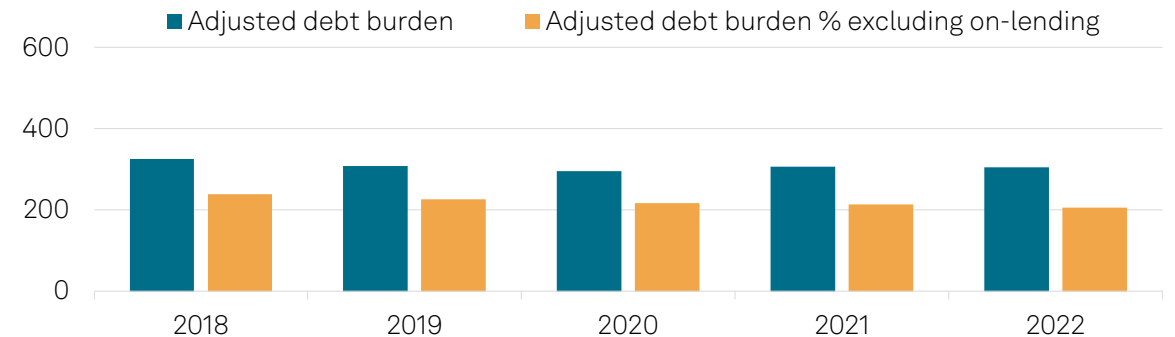
Rank among 51 Chinese tier-two LRGs. Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, LRGs' bureau of statistics, Wind, S&P Global Ratings.

Narrowing deficit due to provincial government sharing more taxes with Changsha since 2020 and contained capex (BACA %)



Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, S&P Global Ratings.

Stabilizing debt burden from both government and its SOEs (%)



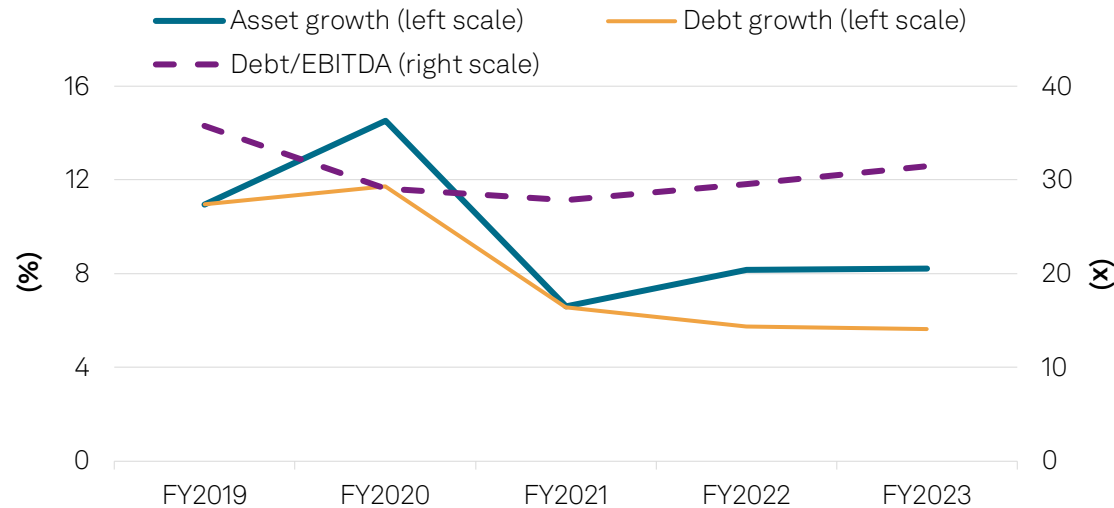
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SOEs in Changsha

Changsha SOEs are leading in Hunan in terms of debt size, issuance level and low funding costs

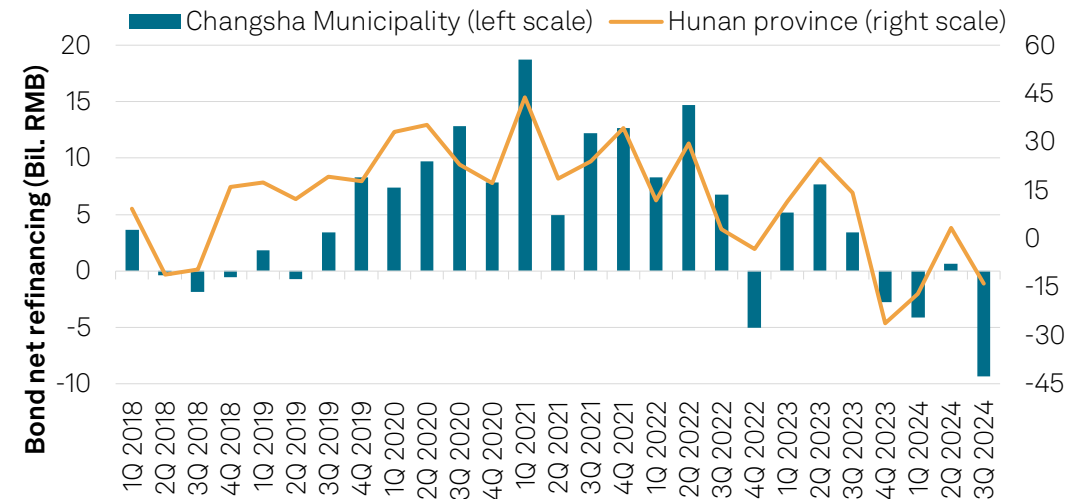
- Changsha SOEs are mainly LGFVs of the city or functional zone, and transportation companies such as metro and toll roads. They have high financial leverage due to capital intensity. Asset and debt growth has slowed since 2021, with more paced spending.
- Changsha LGFVs' debt accounted for 35% of all SOE debt in Hunan, the highest among its cities. With leading economic performance and lower leverage ratio, the city's SOEs have the highest issuance (nearly 40% of all LGFV bonds in Hunan) with lower funding costs.

Changsha SOEs' debt growth has slowed since 2021 with slower expansion



Financials aggregate city-level SOEs with available financials only. Sources: Wind, S&P Global Ratings.

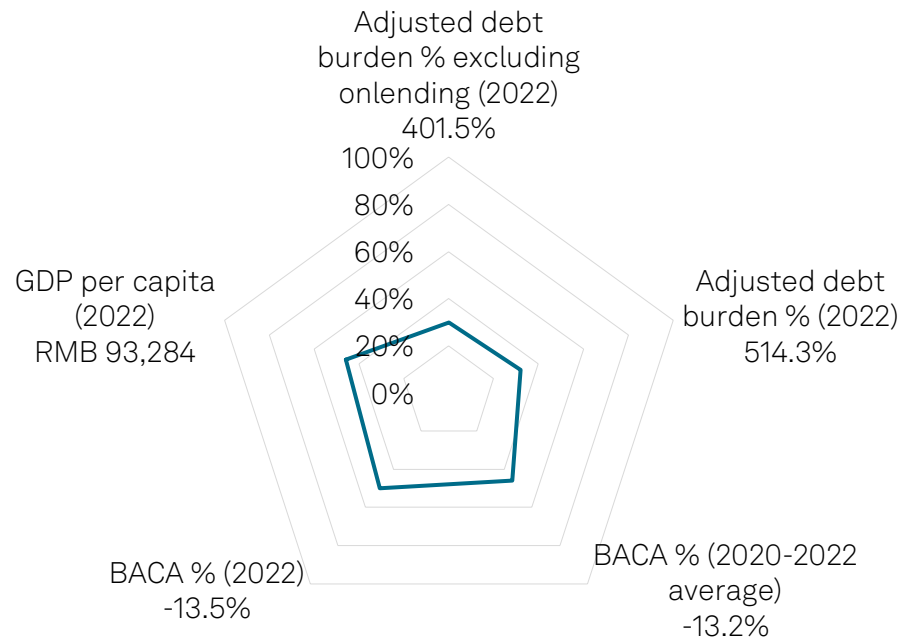
Changsha SOEs dominated the issuance of tier two governments in Hunan province



Changsha SOE domestic bond quarterly net refinancing amount (whole city all levels). Source: Wind, S&P Global Ratings. Sources: Wind, S&P Global Ratings.

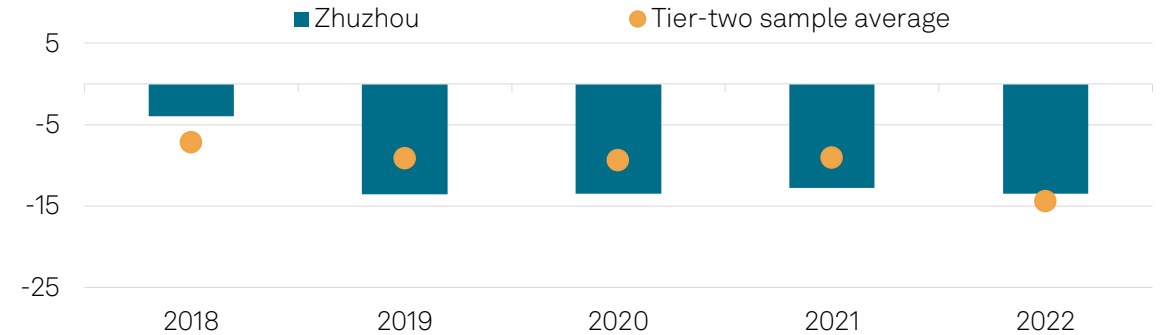
City Governments | Zhuzhou

Zhuzhou's credit profile is constrained by its relative high debt burden
Local rank (higher % indicates stronger credit profile)



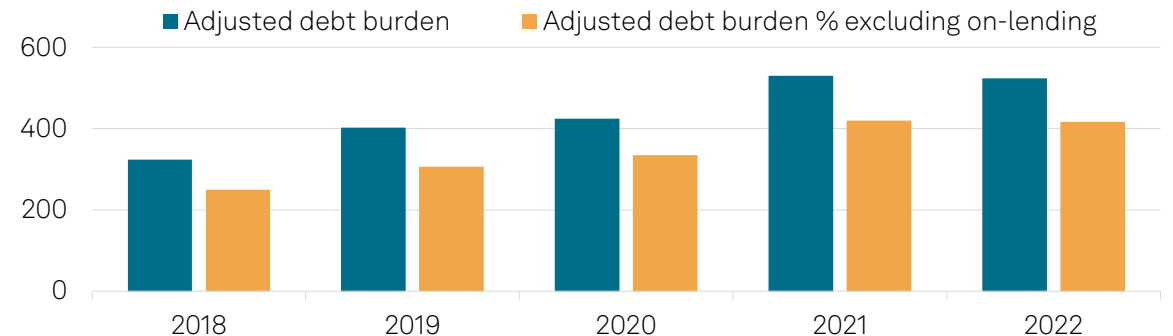
Rank among 51 Chinese tier-two LRGs. Please refer to our glossary for a definition of terms.
Sources: LRGs' bureau of finance, LRGs' bureau of statistics, Wind, S&P Global Ratings.

Sustained capital spending partially mitigated by larger transfers
(BACA %)



Note: Please refer to our glossary for a definition of terms. Source: LRGs' bureau of finance, S&P Global Ratings.

Slowing debt growth for both government and LGFVs, but revenue shrank even more (%)



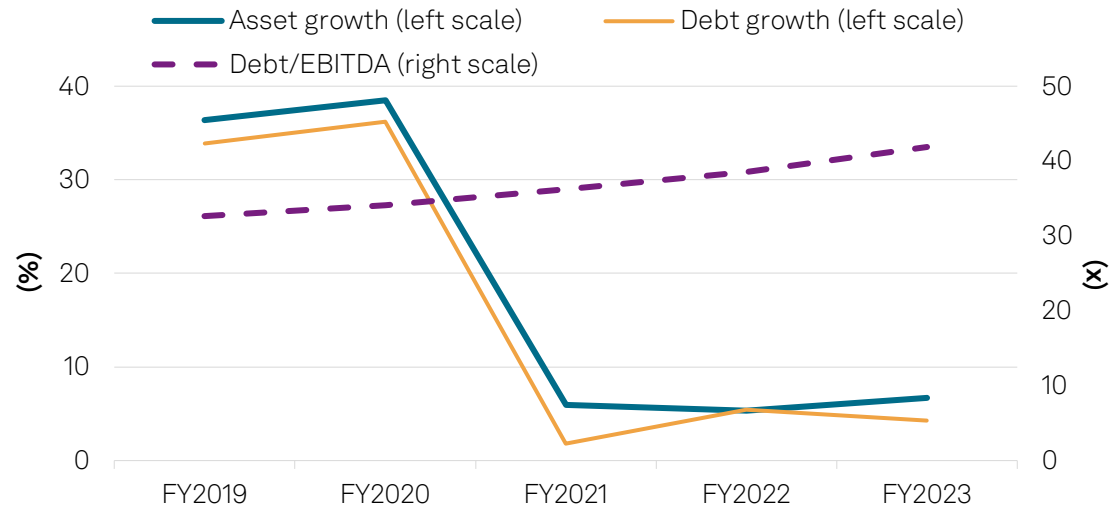
Please refer to our glossary for a definition of terms.
Sources: LRGs' bureau of finance, Wind, S&P Global Ratings.

SOEs in Zhuzhou

Zhuzhou SOEs growth has halted since 2021, but leverage remains high

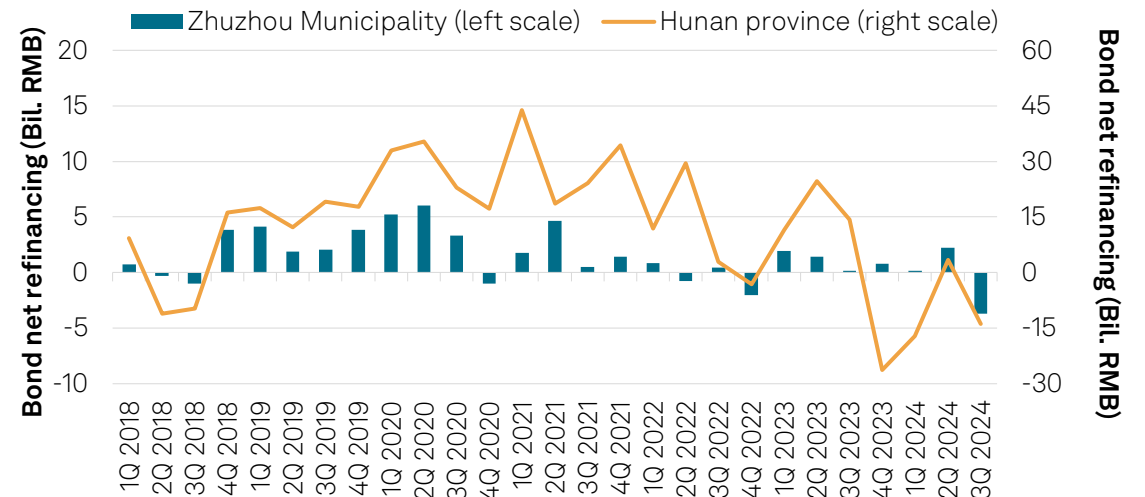
- SOEs in Zhuzhou are diversified. They're involved in typical LGFV business, plus pharmaceutical, machinery, material, property, etc. The SOEs' cash flow have weakened in the past three years, on a slower economy and subdued property sector.
- Zhuzhou SOEs have raised about 33% of debt from bonds, as of end-2023. But tenors have shortened on weak market confidence towards the SOEs, given concerns over economic growth in Zhuzhou and rising debt of its LGFVs.

Zhuzhou SOE's debt growth has dropped to single digit in 2021-2023



Financials aggregate city-level SOEs only. Source: Wind, S&P Global Ratings.

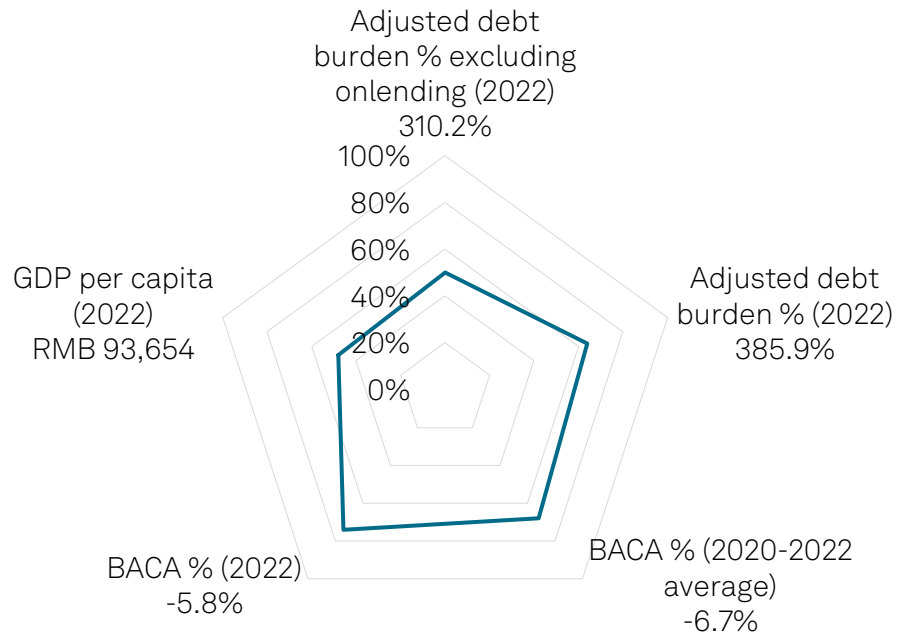
Zhuzhou SOEs' issuance has seen shorter tenor since 2023



Zhuzhou SOE domestic bond quarterly net refinancing amount (whole city all levels). Source: Wind, S&P Global Ratings.

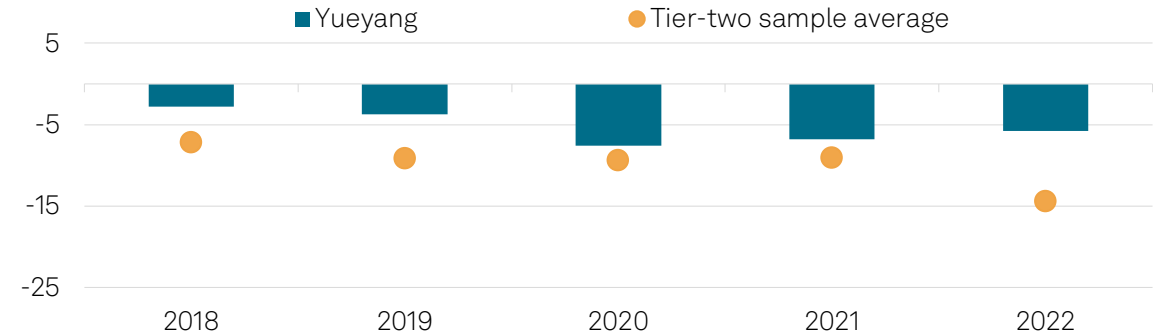
City Governments | Yueyang

Credit metrics supported by transfers and slower capex
Local rank (higher % indicates stronger credit profile)



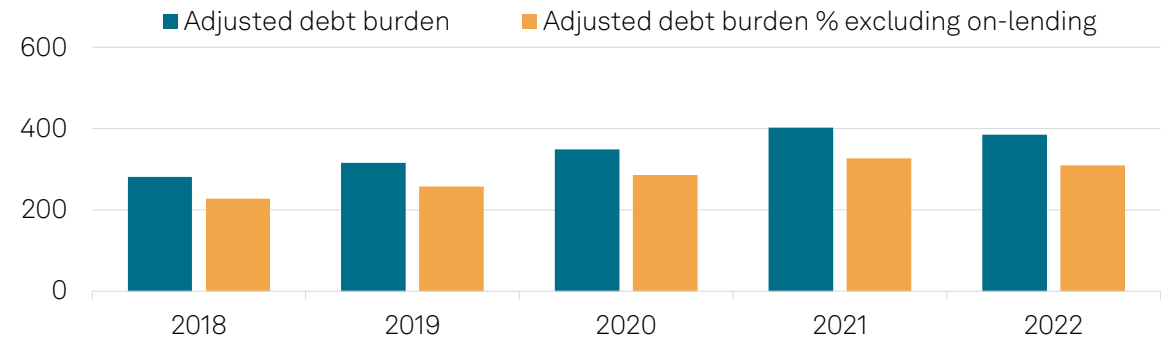
Rank among 51 Chinese tier-two LRGs. Please refer to our glossary for a definition of terms.
Sources: LRGs' bureau of finance, LRGs' bureau of statistics, Wind, S&P Global Ratings.

Capex control and transfer inflows aid budgetary performance (BACA %)



Note: Please refer to our glossary for a definition of terms. Source: LRGs' bureau of finance, S&P Global Ratings.

Debt burden to stabilize as top SOEs started deleveraging (%)



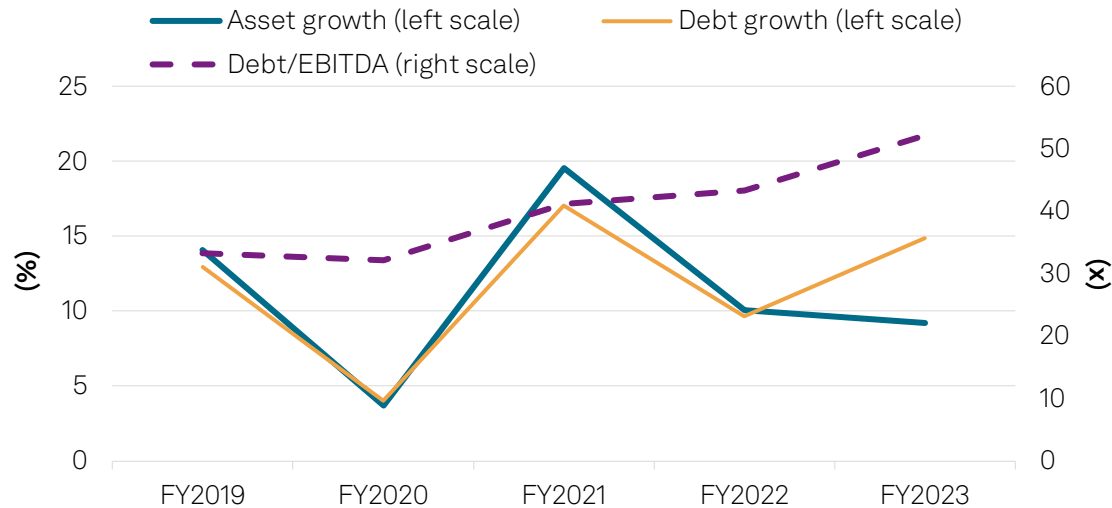
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SOEs In Yueyang

Yueyang SOEs are leveraging up for infrastructure construction in the city

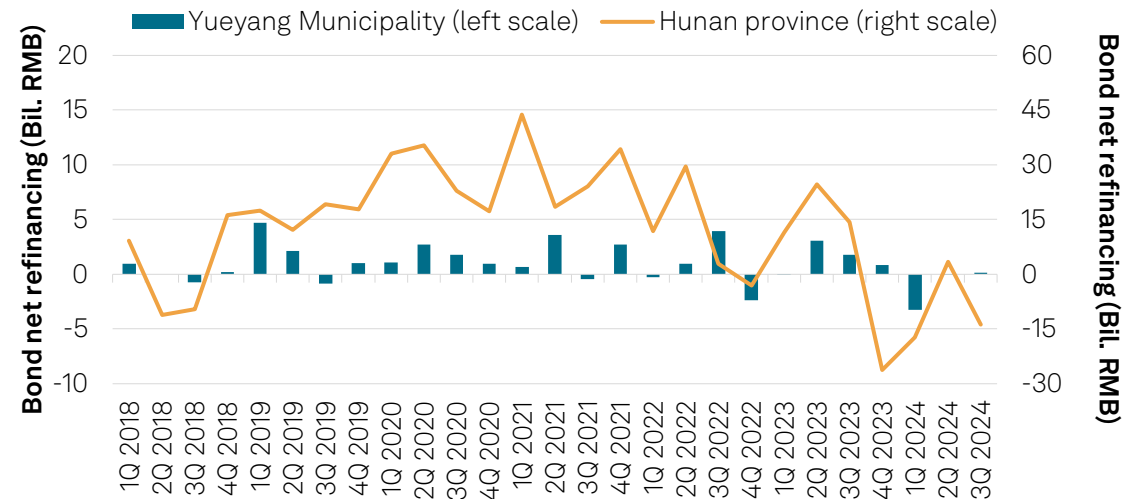
- Yueyang Construction and Investment Group Co. Ltd. , the city’s key LGFV, is highly dependent on government-related revenue. Heavy investments needs drove up leverage in the past three years, despite a slowdown in debt growth.
- Yueyang SOEs have good access to the bond market. As of 2023, bonds account for about 30% of their total debt. Yueyang has strong fundamentals and economic growth, ranking no. 2 in Hunan, behind Changsha; this supports its SOEs’ refinancing capability.

Yueyang SOEs' leverage is trending up with mild debt growth but stagnant EBITDA



Financials aggregate city-level SOEs only. Source: Wind, S&P Global Ratings.

Yueyang SOEs are issuing at a relatively lower cost in Hunan

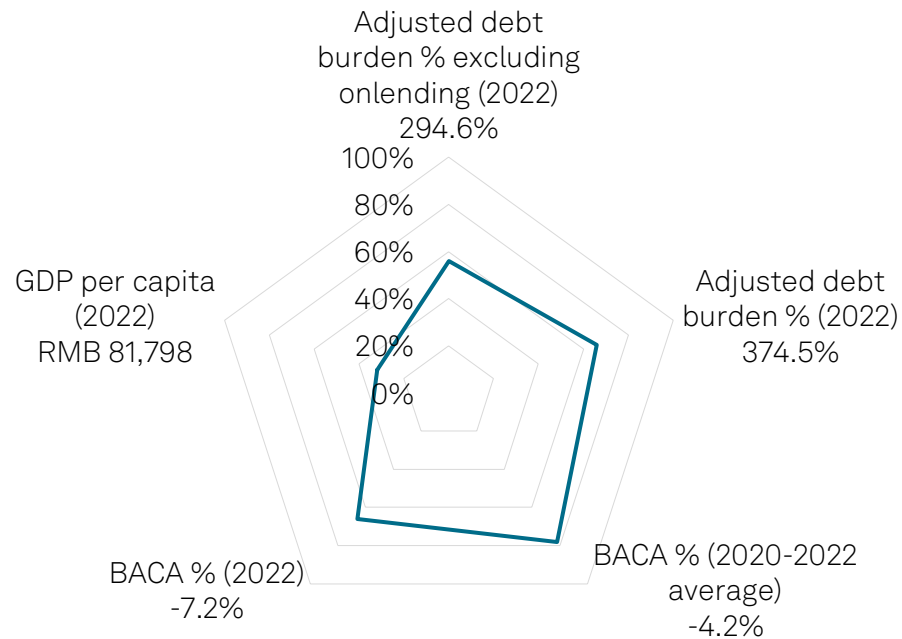


Yueyang SOE domestic bond quarterly net refinancing amount (whole city all levels). Source: Wind, S&P Global Ratings.

City Governments | Changde

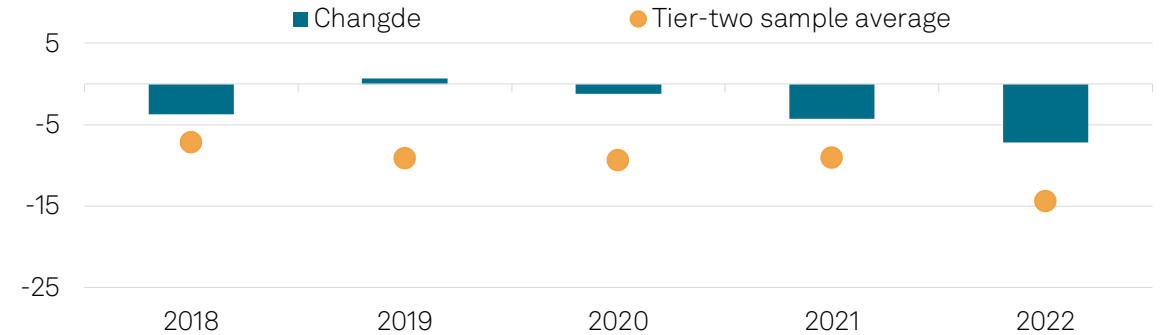
Economic weakness weighs on credit strains

Local rank (higher % indicates stronger credit profile)



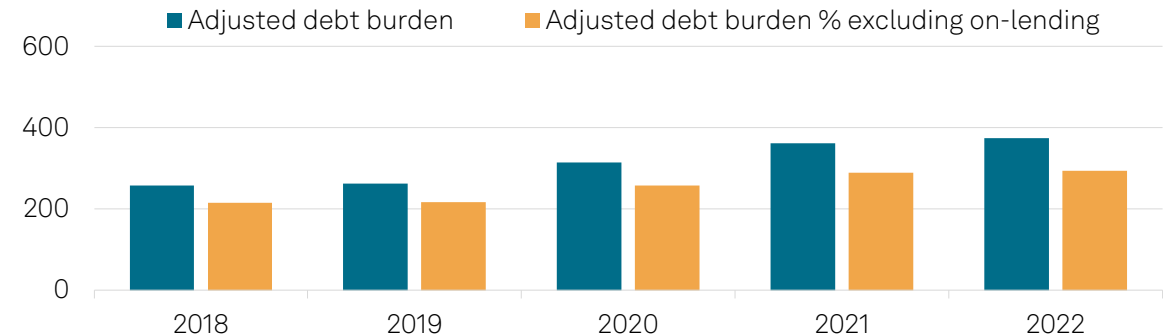
Rank among 51 Chinese tier-two LRGs. Please refer to our glossary for a definition of terms. Sources: LRGs' bureau of finance, LRGs' bureau of statistics, Wind, S&P Global Ratings.

Constrained spending keeps deficit lower (BACA %)



Note: Please refer to our glossary for a definition of terms. Source: LRGs' bureau of finance, S&P Global Ratings.

Decelerated debt growths under spending control helped stabilize debt metrics despite government oprev contraction (%)



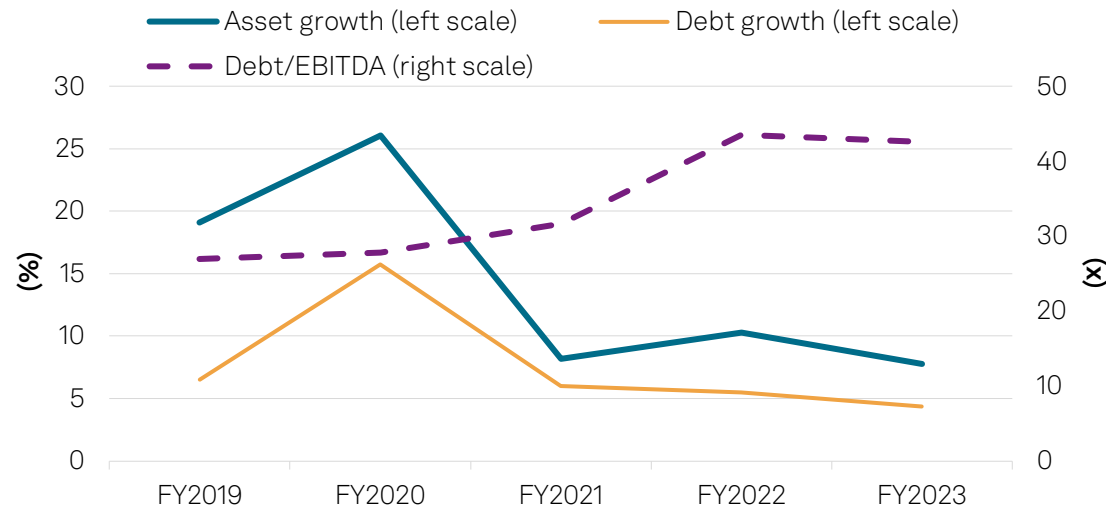
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SOEs in Changde

Changde SOEs' platforms received strong government support to improve financing capability.

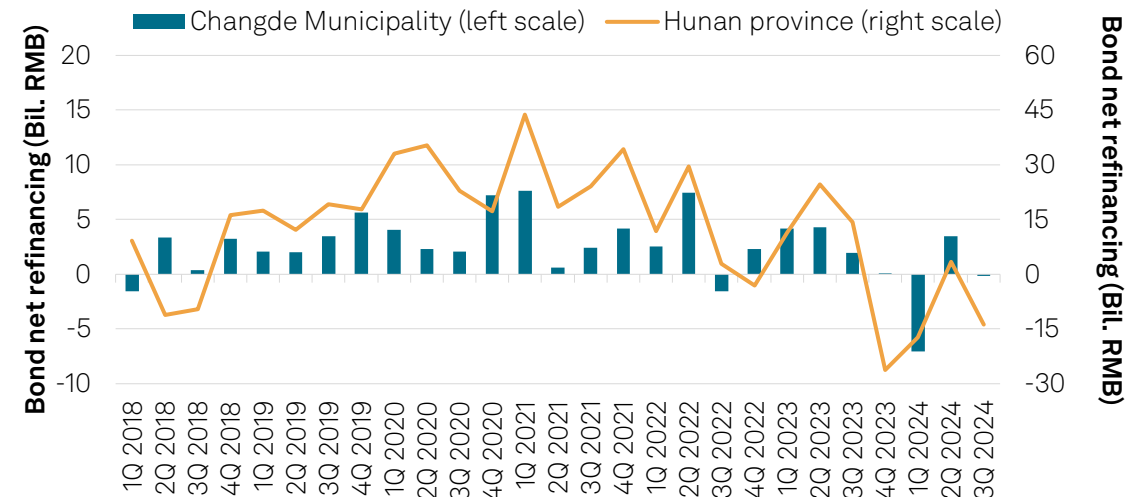
- Changde SOEs are mainly LGFVs engaged in urban development and development zone. The government injected assets into these LGFVs, which we believe helps them manage leverage and consolidate government-owned assets to improve efficiency.
- Changde SOEs rely on bond issuance for financing and market access is key for refinancing. As of end-2023, bonds accounted for about 40% of total debt. A key LGFV, Changde Economic Construction Investment Group, has raised over 50% of debt from bonds.

Changde SOEs have elevated leverage with their urban development function



Financials aggregate city-level SOEs only. Source: Wind, S&P Global Ratings.

Changde key SOEs rely heavily on bonds financing

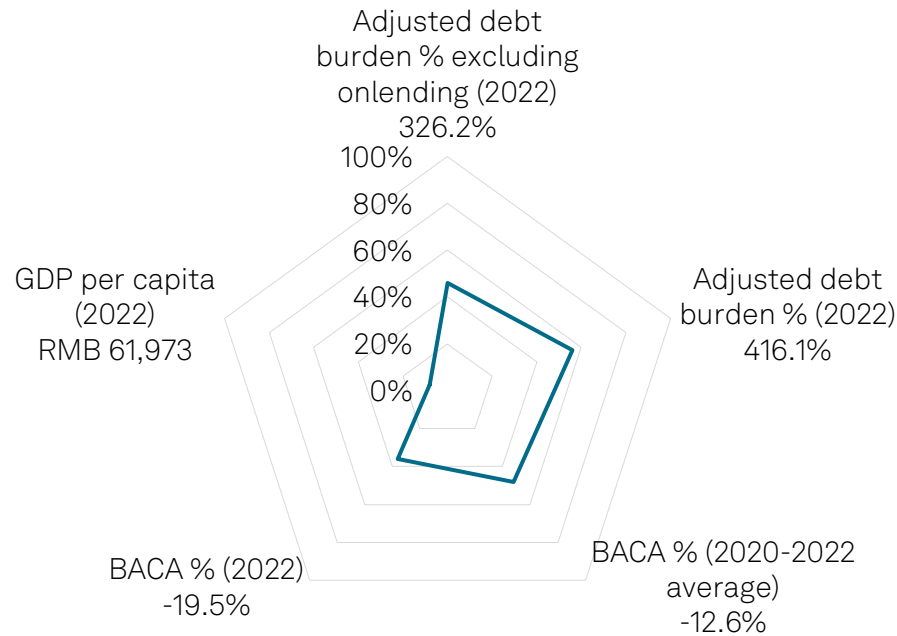


Changde SOE domestic bond quarterly net refinancing amount (whole city all levels). Source: Wind, S&P Global Ratings.

City Governments | Hengyang

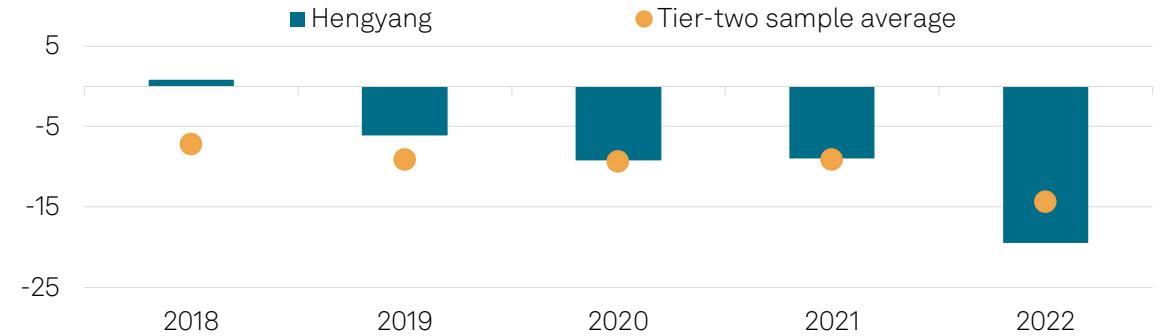
Weak credit profile due to low income level

Local rank (higher % indicates stronger credit profile)



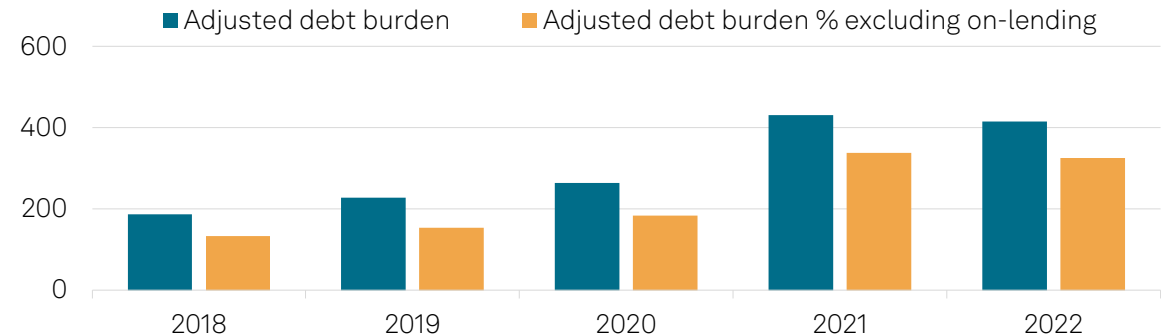
Rank among 51 Chinese tier-two LRGs. Please refer to our glossary for a definition of terms.
Sources: LRGs' bureau of finance, LRGs' bureau of statistics, Wind, S&P Global Ratings.

Hengyang's deficit is temporarily dragged by weak land sales (BACA %)



Note: Please refer to our glossary for a definition of terms. Source: LRGs' bureau of finance, S&P Global Ratings.

Decelerating debt growths was temporarily driven up by SOEs consolidation in 2021 (%)



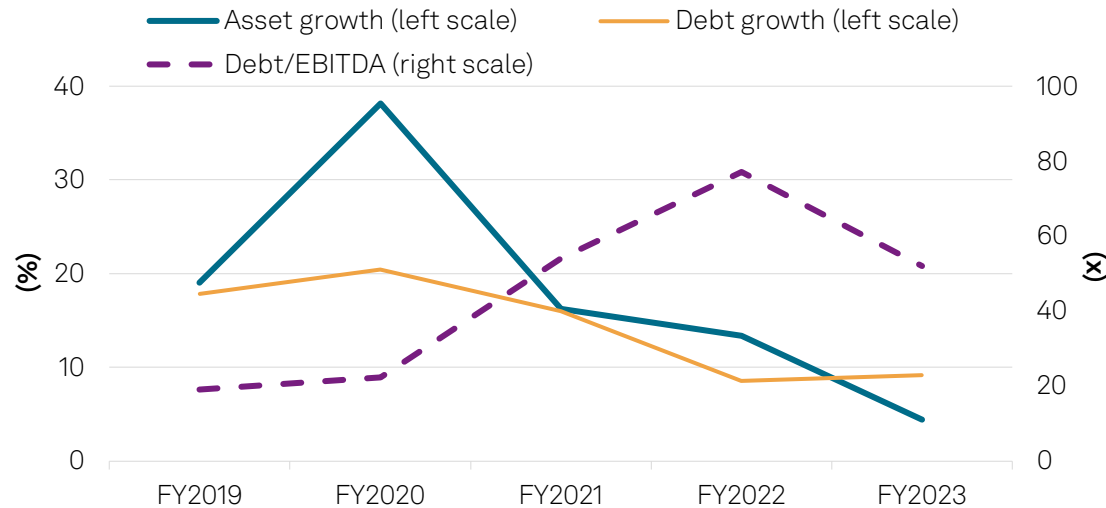
Please refer to our glossary for a definition of terms.
Sources: LRGs' bureau of finance, Wind, S&P Global Ratings.

SOEs in Hengyang

Hengyang SOEs are controlling debt growth, amid its elevated leverage among our sampled cities

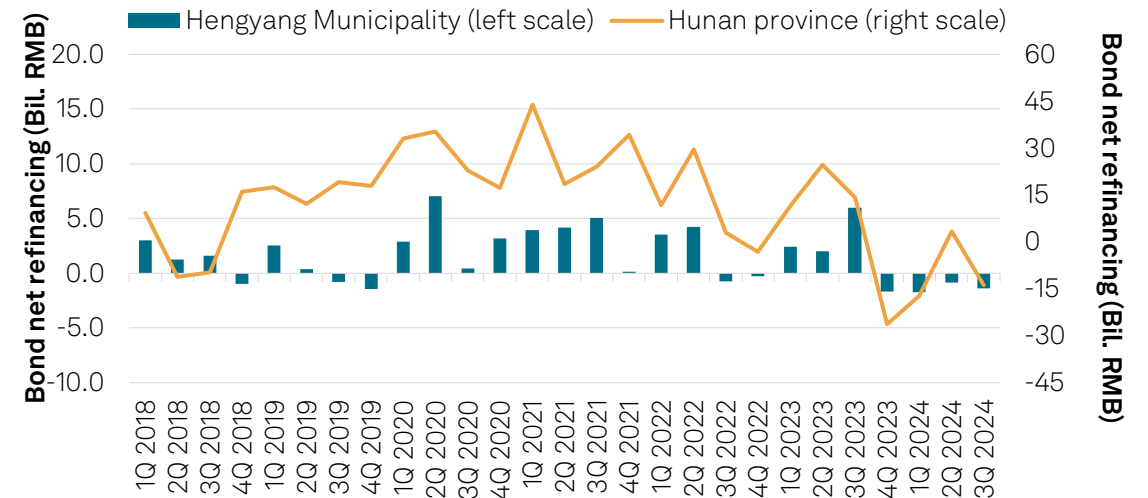
- SOEs in Hengyang are mainly LGFVs in the city or high-tech development zone. Elevated financial leverage of Hengyang’s key LGFV, Hengyang Urban Construction Investment Development Group, drove up the overall leverage for the city's SOEs.
- Similar to Yueyang, Hengyang SOEs have high reliance on bonds financing, with about 40% of debt being bonds, as of end-2023. Hengyang’s relatively better economics among cities in Hunan supports its SOEs’ financing capability.

Hengyang SOEs' leverage remained high despite decelerated debt growth



Financials aggregate city-level SOEs only. Source: Wind, S&P Global Ratings.

Hengyang SOEs have been net repaying bonds in the past four quarters



Hengyang SOE domestic bond quarterly net refinancing amount (whole city all levels). Source: Wind, S&P Global Ratings.

Key Financial Institutions In Hunan



Lingering asset quality pressure tests Hunan regional banks

Credit divergence pressures Hunan banks' risk profile

- Generally soft economy outside Changsha may put Hunan's regional lenders under pressure, particularly for those with sizable exposure to less-affluent regions and rural areas.
- Above-average property and construction exposure across major local banks and high loan forbearance in certain lenders could also challenge credit strength.
- This would happen if unbalanced economic recovery and property market strains continue to weigh on the recovery prospects of underperforming exposures.

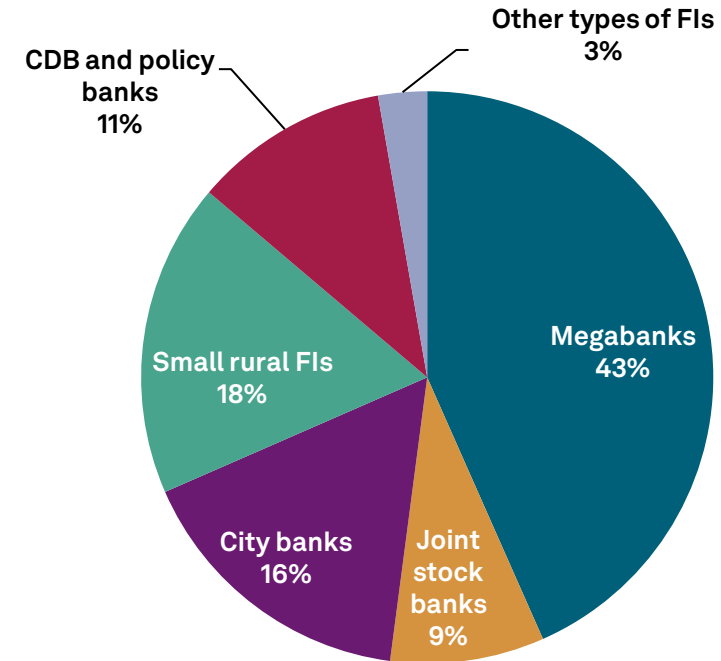
Overview of the banking sector (as of end-2023)

- Total assets: RMB9,753 billion
- Total loans: about RMB6,940 billion
- Total deposits: about RMB7,767 billion

Here we cover the four largest local commercial banks. The two city commercial banks and two rural commercial banks accounted for 18% of loans, 15% deposits and 13% loans.

The banking sector is well diversified

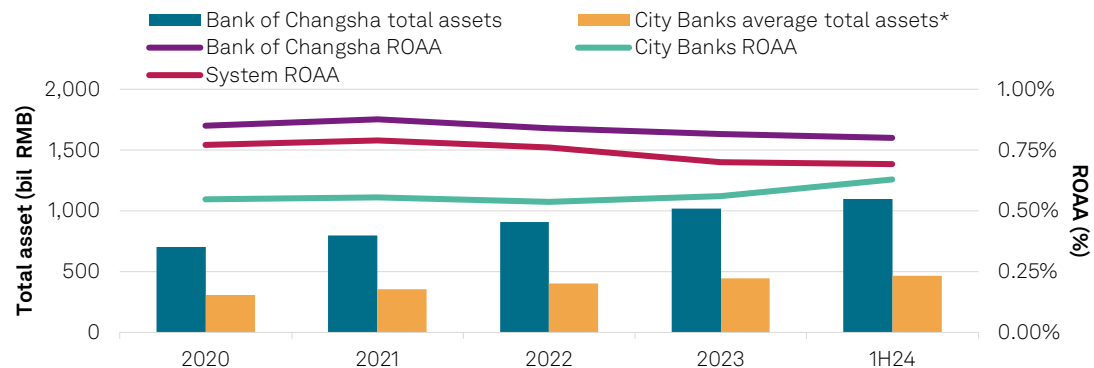
Market share of different types of banking FIs by assets



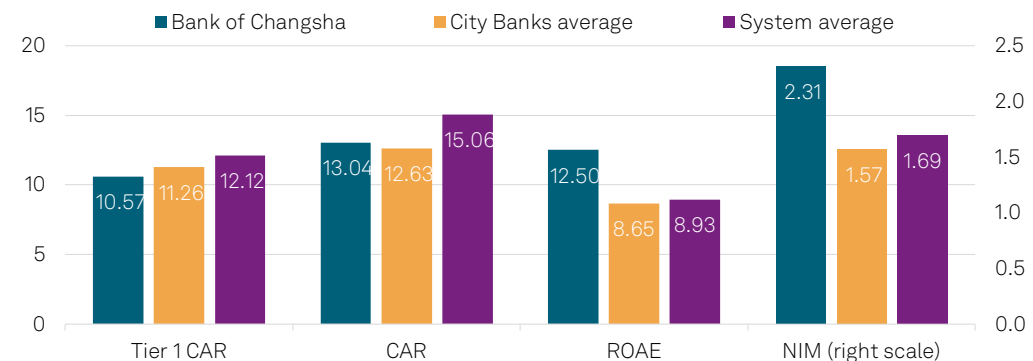
Data as of Dec 31, 2023. Local financial institutions (FIs): 2 city commercial banks, 103 small rural FIs, 74 new types of rural FIs, 8 other types of FIs.
Sources: Company data, The PBOC, National Financial Regulatory Administration.

Bank of Changsha: Established presence in Hunan a key strength

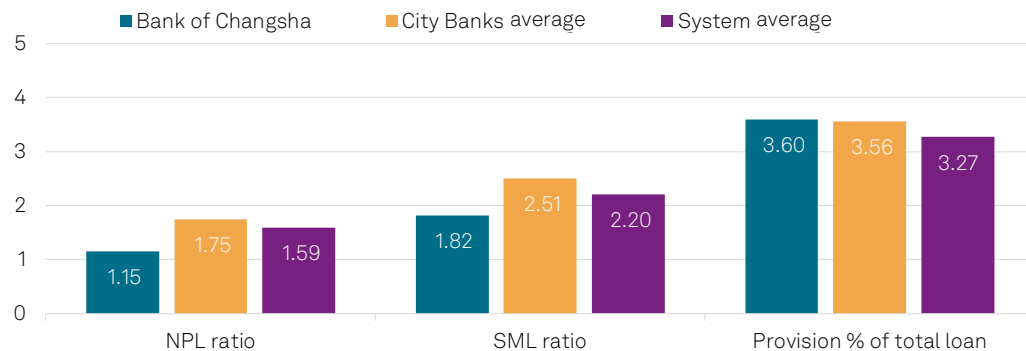
Solid local franchise supports strong growth



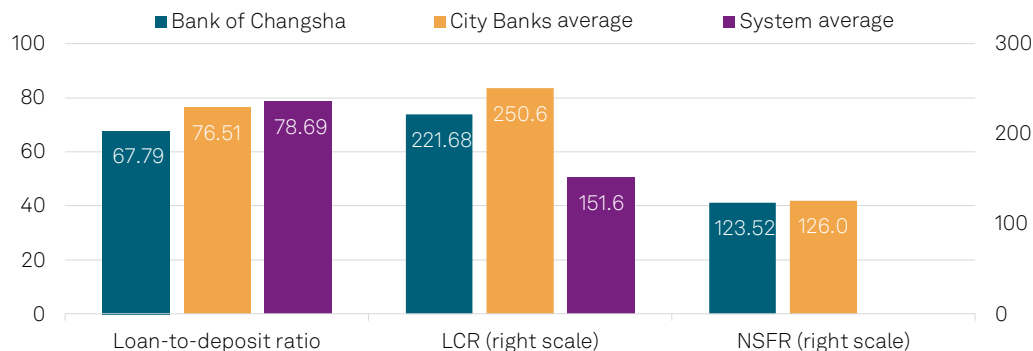
Above-average profitability underpins moderate capitalization (%)



Increasing problem loans, high LGFV exposure may strain asset quality (%)



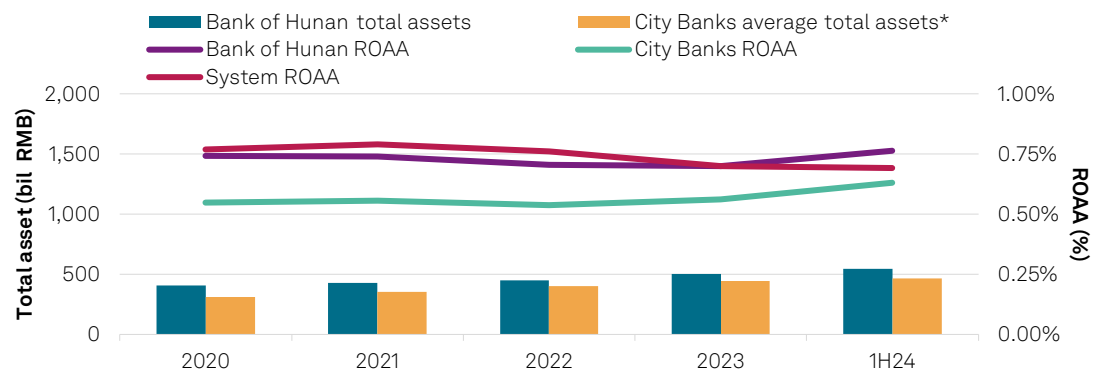
Good quality investment holdings support liquidity (%)



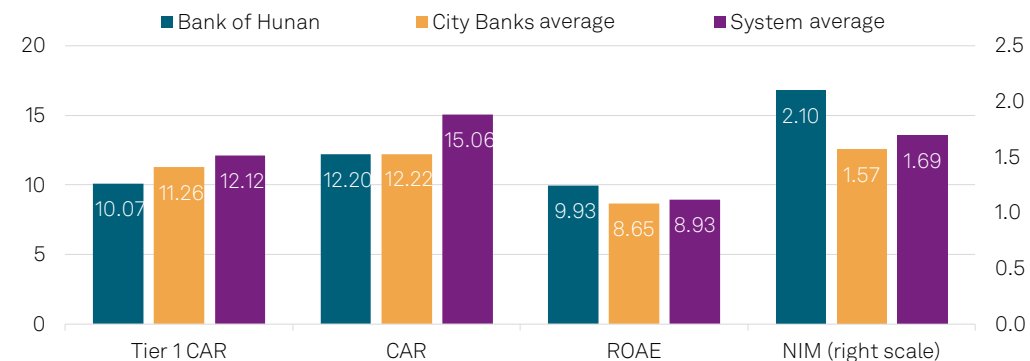
Data as of Dec 31, 2023, unless stated explicitly. The ratios are calculated by averaging the number of city commercial banks with available data: average tier-1 CAR (101), ROAE (30), SML ratio (29), Provision & of total loan (106), loan-to-deposit ratio (108), LCR (60), and NSFR (55). ROAA--Return on average assets. CAR--Capital adequacy ratio. ROAE--Return on average equity. NIM--Net interest margin. NPL--Nonperforming loans. SML--Special mentioned loans. LCR--Liquidity coverage ratio. NSFR--Net stable funding ratio. Sources: Company data, WIND, National Financial Regulatory Administration, S&P. Writer: Michael Huang.

Bank of Hunan: average-size city bank constrained by asset quality

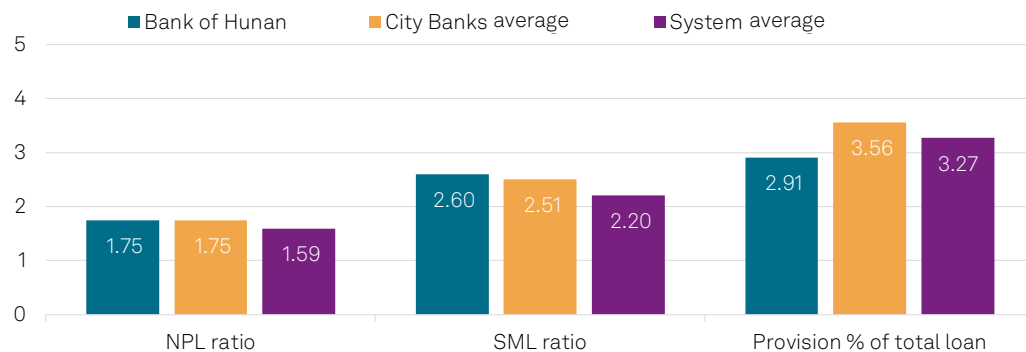
Regaining growth at home after ownership change



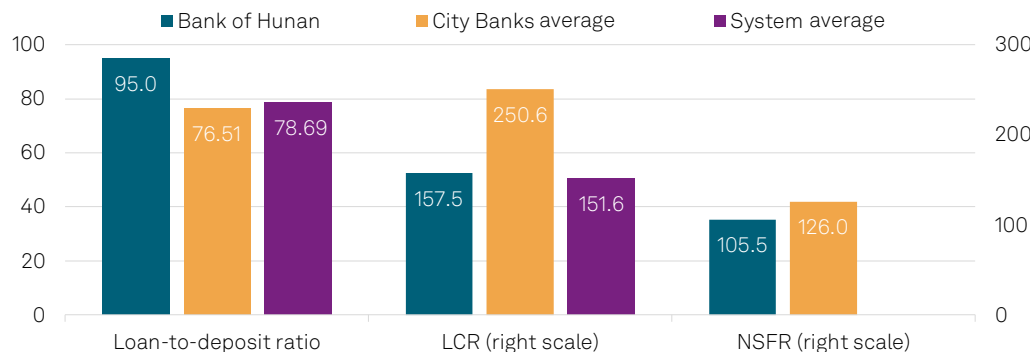
Sizable property/construction exposure weighs on capital (%)



Elevated forborne loans, relatively low provision protection (%)



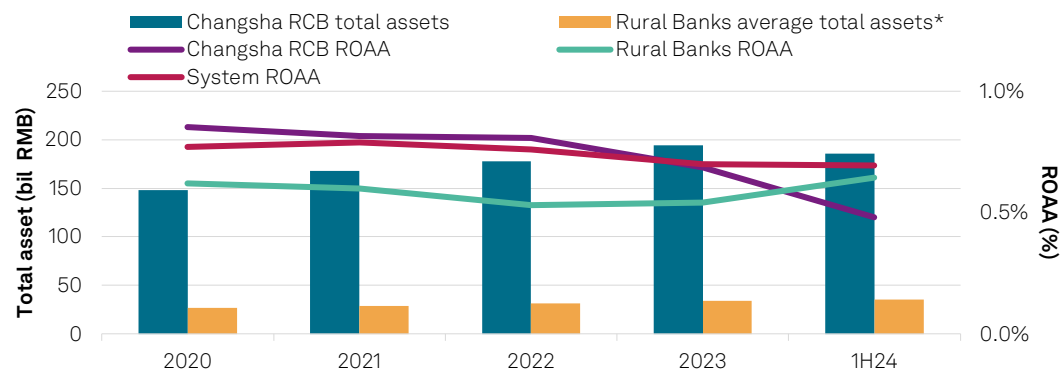
Largely stable funding profile supported by corporate deposits (%)



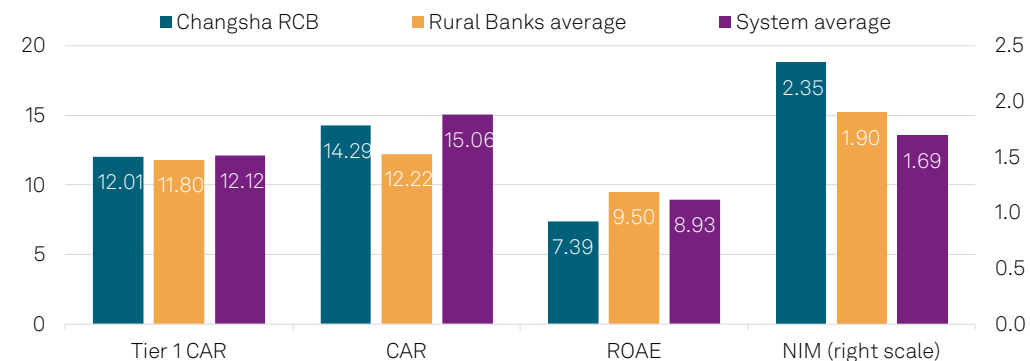
Data as of Dec 31, 2023, unless stated explicitly. The ratios are calculated by averaging the number of city commercial banks with available data: average tier-1 CAR (101), ROAE (30), SML ratio (29), Provision & of total loan (106), loan-to-deposit ratio (108), LCR (60), and NSFR (55). ROAA--Return on average assets. CAR--Capital adequacy ratio. ROAE--Return on average equity. NIM--Net interest margin. NPL--Nonperforming loans. SML--Special mentioned loans. LCR--Liquidity coverage ratio. NSFR--Net stable funding ratio. Sources: Company data, WIND, National Financial Regulatory Administration, S&P. Writer: Michael Huang.

Changsha RCB: High customer concentration with asset quality risks

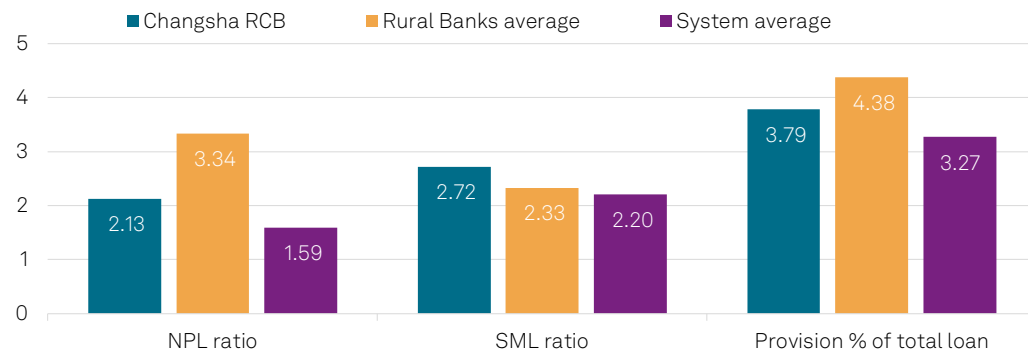
Loan concentration in top customers a potential business risk



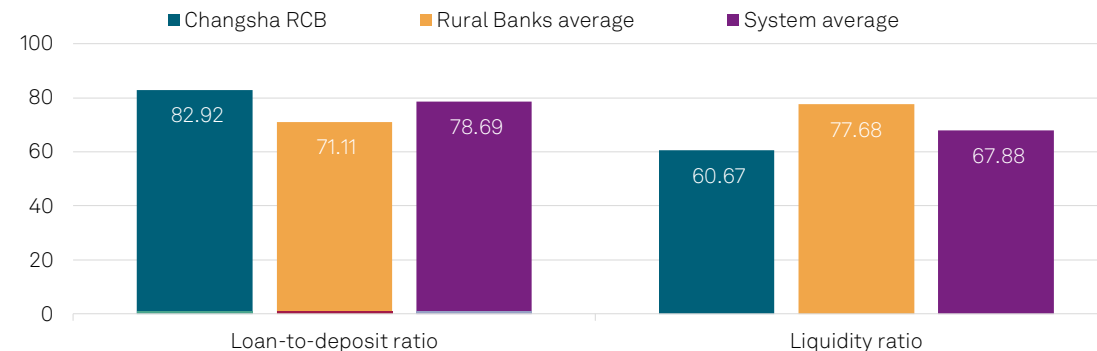
Below-average asset growth reins in leverage buildup (%)



High credit risks from SME and rural concentration (%)



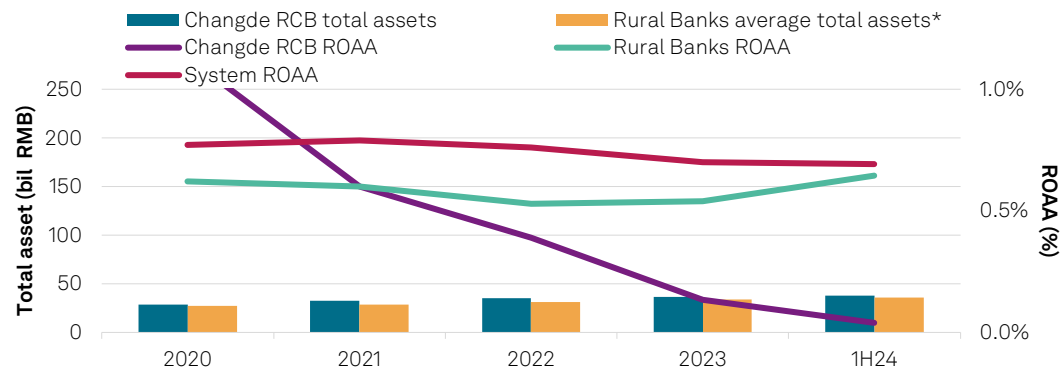
Funding and liquidity largely aligned with peers' (%)



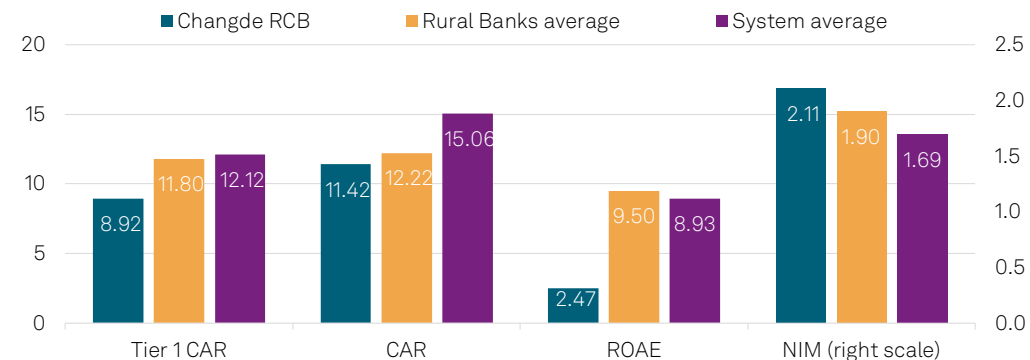
Data as of Dec 31, 2023, unless stated explicitly. Changsha RCB--Changsha Rural Commercial Bank. ROAA--Return on average assets. The ratios are calculated by averaging the number of rural commercial banks with available data: average Tier-1 CAR (295), ROAE (16), SML ratio (13), Provision % of total loan (333), loan-to-deposit ratio (336). CAR--Capital adequacy ratio. ROAE--Return on average equity. NIM--Net interest margin. NPL--Nonperforming loans. SML--Special mentioned loans. Sources: Company data, WIND, National Financial Regulatory Administration, S&P. Writer: Michael Huang.

Changde RCB: vulnerable business operation with weak capital

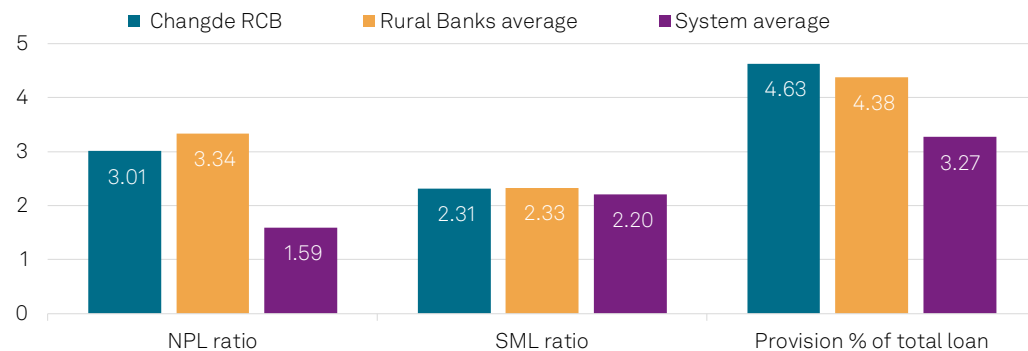
Retail franchise strained by a lackluster Changde economy



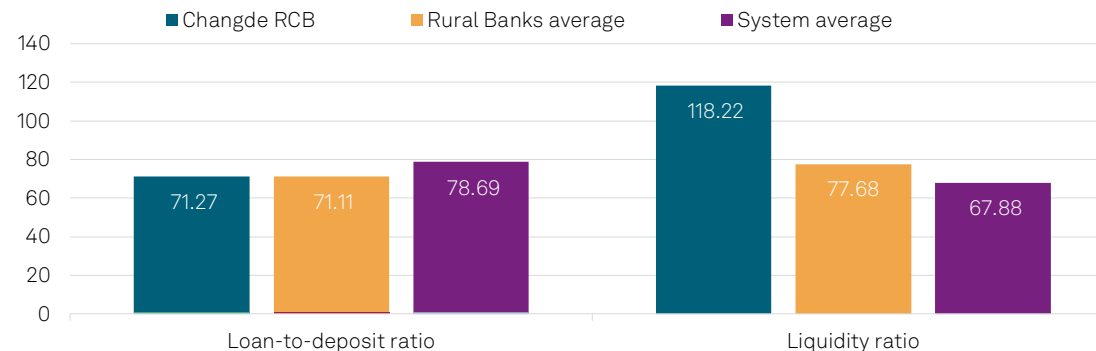
Limited profitability constrains internal capital generation (%)



Growing nonperforming assets weigh on profitability (%)



Sizable liquid bond holdings support liquidity position (%)



Data as of Dec 31, 2023, unless stated explicitly. Changde RCB--Changde Rural Commercial Bank. ROAA--Return on average assets. The ratios are calculated by averaging the number of rural commercial banks with available data: average Tier-1 CAR (295), ROAE (16), SML ratio (13), Provision & of total loan (333), loan-to-deposit ratio (336). CAR--Capital adequacy ratio. ROAE--Return on average equity. NIM--Net interest margin. NPL--Nonperforming loans. SML--Special mentioned loans. Sources: Company data, WIND, National Financial Regulatory Administration, S&P. Writer: Michael Huang.

Appendix



Appendix

Key metrics of Hunan and the Chinese LRG sector

	GDP scale (bil. RMB)	GDP per capita (RMB)	LRG total revenue (bil. RMB)	LRG debt (bil. RMB)	SOE debt (bil. RMB)	Real GDP growth %	BACA %	Adjusted DB%	Adjusted DB excluding on lending %
Hunan-provincial level									
2021-2023 average	4,825	72,992	534	213	572	5.6	(1.8)	288	45
2023	5,001	75,938	582	223	616	4.6	(1.6)	307	43
Hunan-whole region									
2021-2023 average	4,825	72,992	1,111	1,574	2,419	5.6	(18.5)	303	N.A.
2023	5,001	75,938	1,111	1,822	2,691	4.6	(19.9)	323	N.A.
China									
2021-2023 average	120,485	85,475	29,170	35,384	65,008	5.6	(15.1)	260	N.A.
2023	126,058	89,358	28,876	40,736	73,866	5.2	(15.9)	274	N.A.

Please refer to our glossary for a definition of terms. LRG--local regional government. RMB--Chinese renminbi. N.A.--Not available.
Sources: LRGs' bureau of finance and bureau of statistics, Wind, S&P Global Ratings.

Appendix

Key metrics of Hunan cities

	GDP scale (bil. RMB, 2022)	GDP per capita (RMB, 2022)	LRG-level			Whole-LRG		
			LRG total revenue (bil. RMB, 2022)	LRG debt (bil. RMB, 2022)	SOE debt (bil. RMB, 2022)	LRG total revenue (bil. RMB, 2022)	LRG debt (bil. RMB, 2022)	SOE debt (bil. RMB, 2022)
Hunan (Province of)	4,867	73,598	1,079	213	596	1,106	1,541	2,161
Changsha (City of)	1,359	135,200	144	137	261	271	287	652
Xiangtan (City of)	270	99,702	29	63	79	40	96	85
Yueyang (City of)	461	93,653	52	44	154	83	92	178
Zhuzhou (City of)	348	93,284	46	44	215	70	102	254
Changde (City of)	427	81,798	56	42	158	79	92	190
Chenzhou (City of)	298	64,132	14	30	63	62	103	107
Hengyang (City of)	409	61,973	55	60	115	72	113	115
Yiyang (City of)	211	55,318	22	13	36	45	61	44
Loudi (City of)	189	51,065	34	17	4	42	58	4
Yongzhou (City of)	238	46,647	20	21	47	77	76	51
Huaihua (City of)	188	41,357	43	37	2	57	86	7
Shaoyang (City of)	260	40,341	17	28	57	73	77	75
Zhangjiajie (City of)	59	39,306	13	17	31	25	35	35
Xiangxi (Autonomous Prefecture)	80	33,114	52	9	6	37	49	14

Please refer to our glossary for a definition of terms. RMB--Chinese renminbi.
Sources: LRGs' bureau of finance and bureau of statistics, Wind, S&P Global Ratings.

Appendix

Top corporate SOEs in Hunan

SOE (non-FI)	SOE (non-FI)	Reference LRG*	Tier of LRG	Total debt (bil. RMB,2023)
湖南省高速公路集团有限公司	Hunan Provincial Expressway Group Co. Ltd	Hunan (Province of)	T1	386.4
湖南建设投资集团有限责任公司	Hunan Construction Investment Group Co. Ltd	Hunan (Province of)	T1	106.4
长沙城市发展集团有限公司	Changsha Urban Development Group Co. Ltd.	Changsha (City of)	T2	105.0
长沙市轨道交通集团有限公司	Changsha Metro Group Co. Ltd.	Changsha (City of)	T2	93.1
衡阳市城市建设投资发展集团有限公司	Hengyang Urban Construction Investment Development Group Co. Ltd	Hengyang (City of)	T2	86.9
岳阳市城市建设投资集团有限公司	Yueyang Construction and Investment Group Co. Ltd.	Yueyang (City of)	T2	85.9
株洲市城市建设发展集团有限公司	Zhuzhou City Construction Development Group Co. Ltd.	Zhuzhou (City of)	T2	68.3
常德市城市发展集团有限公司	Changde Urban Development Group Co. Ltd	Changde (City of)	T2	64.9
株洲市国有资产投资控股集团有限公司	Zhuzhou State-owned Assets Investment Holding Group Co. Ltd.	Zhuzhou (City of)	T2	63.4
娄底市城市发展控股集团有限公司	Loudi City Development Holding Group Co. Ltd.	Loudi (City of)	T2	46.3
湖南湘江新区发展集团有限公司	Hunan Xiangjiang New Area Development Group Co. Ltd	Changsha (City of)	T2	44.5
株洲高科集团有限公司	Zhuzhou Geckor Group Co. Ltd.	Zhuzhou (City of)	T2	44.0
宁乡市城发投资控股集团有限公司	Ningxiang Chengfa Investment Holding Group Co. Ltd.	Ningxiang (City of)	T3	43.8
怀化市城市发展集团有限公司	Huaihua Urban Development Group Co. Ltd	Huaihua (City of)	T2	43.5
常德市经济建设投资集团有限公司	Changde Economic Construction Investment Group Co. Ltd	Changde (City of)	T2	43.2

Data as of December 2023. The list shows top 15 SOEs by total debt within the region. *Reference government refers to the largest government owner as listed in Wind. Please refer to our glossary for a definition of terms. FI--Financial institution. T1--Tier one. T2--Tier two. bil.--Billion. RMB--Chinese renminbi.

Sources: LRGs' State-owned Assets Supervision and Administration, Wind, S&P Global Ratings.

Appendix

Top financial institution SOEs in Hunan region

SOE (FI)	SOE (FI)	Reference LRG*	Tier of LRG	Assets (bil. RMB, 2023)	Total loan (bil. RMB, 2023)	Total regulatory capital (bil. RMB, 2023)	CAR % (2023)
长沙银行股份有限公司	Bank of Changsha Co. Ltd.	Changsha (City of)	T2	1,020	474	82	13.04
湖南银行股份有限公司	Bank of Hunan Corp. Ltd.	Hunan (Province of)	T1	503	277	45	12.20
长沙农村商业银行股份有限公司	Changsha Rural Commercial Bank Co. Ltd.	Changsha (City of)	T2	194	107	19	14.29
常德农村商业银行股份有限公司	Changde Rural Commercial Bank Co. Ltd.	Changde (City of)	T2	37	21	3	11.42

Data as of December 2023. *Reference government refers to the largest government owner as listed in Wind. Please refer to our glossary for a definition of terms. FI--Financial institution. T1--Tier one. T2--Tier two. bil.--Billion. RMB--Chinese renminbi.
Sources: LRGs' State-owned Assets Supervision and Administration, Wind, S&P Global Ratings.

Glossary

- Note on our data: We use settlement data for 2022 and before. For provincial level and China tier-one sector data, we use adjusted revenue for key ratio calculations. For tier-two and tier-two sector data, we are currently using reported revenue numbers.
- LRG: Local and regional government.
- Tier-one LRG: Provinces, autonomous regions, municipalities, and cities with state-planning status.
- Tier-two LRG: Cities, autonomous prefectures, and districts of municipalities.
- Tier-one sector: An aggregation of 36 tier-one LRGs, as defined in our risk indicator article for such tier-one governments (see "Related Research," below).
- Tier-two sector: An aggregation of 48 tier-two LRGs, as defined in our risk indicator article for such tier-two governments (see "Related Research," below).
- BACA: Balance after capital account of LRGs.
- BACA %: Adjusted total revenue subtracted by adjusted total expenditure, as a percentage of adjusted total revenues.
- Direct debt: Debts directly issued under the name of a given LRG.
- Direct debt / total revenue: Direct debt, as a percentage of an LRG's total revenues (note: this ratio references soft guidance by China authorities and is irrelevant to our credit metrics.)
- Adjusted debt burden: Sum of direct debt and debt of LGFVs that are classified by Wind.
- Adjusted debt burden %: Adjusted debt burden, as a percentage of consolidated operating revenues of an LRG and those of LGFVs.
- Adjusted debt burden % excluding on-lending: Adjusted debt burden excluding on-lending to lower-tier LRGs, as a percentage of operating revenues of an LRG and those of LGFVs.
- SOEs: State-owned enterprises controlled by LRGs.
- LGFVs: SOEs that are classified as LGFV by Wind.
- SOE debt % LRG total revenue: Aggregated debt of SOEs controlled by LRGs as a proportion of LRG total revenues.
- SOE sector leverage (or SOE leverage): The proportion of an SOE's aggregated debt to aggregated EBITDA.
- SOE cash coverage to ST debt: SOEs' cash and short-term securities measured against their short-term debt.

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- [China LRG in Focus- Zhejiang Province](#), Mar. 21, 2024
- [China's Fiscal Bid To Stanch Local SOE Debt Risk](#), Nov. 2, 2023
- [China's District And County Recovery Crimped By Property Slide And Debt Checks](#), Sept 13, 2023
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- [China LRG in Focus-- Guizhou Province](#), Jan. 11, 2023
- [Institutional Framework Assessment: China Provincial Governments' Capital-Light Framework To Support Fiscal Positions](#), Aug. 10, 2023
- [Institutional Framework Assessment: China's Push To Delink LRGs From SOEs Relieves Some Pressure On Tier-Two Governments' Elevated Debt](#), Aug. 10, 2023



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