

Lianhe Global has affirmed ‘BBB-’ global scale Long-term Issuer and Issuance Credit Rating to Liangshan Development (Holdings) Group Co., Ltd; Issuer Rating Outlook Stable

HONG KONG, 29 October 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating to Liangshan Development (Holdings) Group Co., Ltd. (“LDHG”). The Outlook is Stable.

Lianhe Global has also affirmed ‘BBB-’ global scale Long-term Issuance Credit Rating to the senior unsecured USD bonds issued by LDHG’s wholly-owned subsidiary Liang Shan International Development Limited, which is unconditionally and irrevocably guaranteed by LDHG.

The Issuer Rating reflects a high possibility that Sichuan’s Liangshan Yi Autonomous Prefecture (“Liangshan”) would provide strong support to LDHG if needed, in light of the Liangshan government’s majority ownership in LDHG, the high strategic importance of LDHG to Liangshan and the strong linkage between the Liangshan government and LDHG, including management supervision and strategic alignment. In addition, the Liangshan government may face significant adverse impact on its reputation, and business and financing activities should LDHG encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that LDHG’s strategic importance would remain intact while the Liangshan government will continue to ensure LDHG’s stable operation. The Liangshan government has provided ongoing strong support to LDHG, including asset and capital injections, financial subsidies, preferential tax policies, etc.

Key Rating Rationales

A Majority Stake by Liangshan: Liangshan has a majority ownership of LDHG via the State-owned Assets Supervision and Administration Commission of Liangshan (“SASAC of Liangshan”) which is appointed by the prefectural government to supervise state-owned entities. The remaining shareholders are the SASACs or Finance Bureaus of subordinate counties. After the RMB269.74 million capital injection from SASAC of Liangshan in 2019, SASAC of Liangshan’s ownership of LDHG increased to 65.11% from 57.13%.

High Strategic Importance: LDHG is Liangshan’s largest and most important investment and financing platform. The Liangshan government is committed to developing LDHG with the sole responsibility as a state-owned investing and financing platform by consolidating state-owned enterprises and assets. Ongoing consolidations of industrial and capital resources through asset/capital injections and project acquisitions have expanded LDHG’s business scope and asset size to RMB74.2 billion as of end-1H2020 from RMB50 billion as of end-2016.

LDHG has undertaken various major projects including mining, hydropower, and tourism resources to support the economic development in Liangshan. It is also responsible for financing and management of public welfare projects such as road infrastructure, kindergarten, medical and health, poverty alleviation, and shantytown renovations. LDHG has a monopoly advantage in mineral productions and road transportation in Liangshan and has been responsible for most of the government procurement.

Government Supervision and Strategic Alignment: SASAC of Liangshan has strong management supervision over LDHG (including approvals of board members and senior managers and major operating and financing plans) mainly through shareholder meetings and board meetings. LDHG's strategic planning and development have been aligned with the prefectural government's economic and social policies in areas such as poverty alleviation, education and infrastructure.

Ongoing Government Support: LDHG has received capital and asset injections from the Liangshan government directly or indirectly from state-owned entities. The injections include equity capital, land and other fixed assets. LDHG has also persistently received financial subsidies from the government mainly for supporting the public welfare services and poverty alleviation. Some of LDHG's subsidiaries have enjoyed preferential income tax rates, including its five subsidiaries which have been classified as the enterprises in the western region carrying out the government's western development strategy.

Liangshan's Creditworthiness: Liangshan has constantly obtained strong support from the central and provincial governments mainly in the form of transfer payments. We expect the transfer payments to continue and likely be strengthened as China aims to eradicate extreme poverty by 2020, while Liangshan had 7 impoverished counties remaining as of 8 May-2020.

Liangshan, located in the southwest of Sichuan, is the major living area of the Yi ethnic group and one of the economically viable autonomous regions in China (ranked second among 30 autonomous regions by GDP of 2019). It received RMB50.4 billion transfer payments in 2019, compared with RMB41.6 billion in 2018. The strong fiscal support helps Liangshan maintain a low debt ratio (i.e. total government debt divided by aggregate fiscal revenue) of 44.8%, compared with 83.0% of Chengdu and 78.3% of Sichuan at end-2019.

Weak Standalone Profile: LDHG's standalone credit profile remains weak in view of its large debt-funded capital expenditure, resulting in high leverage and modest liquidity. LDHG's financial leverage (total liabilities to assets) was 64.6% at end-1H2020, slightly lower than the 64.7% at end-2019. RMB5.4 billion of the total outstanding debt (RMB20.9 billion) will be due within one year, compared with LDHG's unrestricted cash of RMB7.6 billion, available credit lines of RMB5.0 billion at end-1H2020.

Rating Sensitivities

We would consider downgrading LDHG's rating if (1) there is perceived weakening in support from Liangshan, particularly due to its reduced strategic importance if it is no longer the largest

and most important investment and financing platform in Liangshan, or (2) there is a downgrade in our internal credit assessment on Liangshan.

We could consider upgrading LDHG's rating if there is an upgrade in our internal credit assessment on Liangshan.

Any rating action on LDHG's rating would result in a similar rating action on the USD bonds.

Full List of Issuance Ratings

USD300 million 7.0% senior unsecured bonds due 2022 affirmed at 'BBB-'

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this LDHG's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

Contact Information

Primary Analyst
Wu Rundong
Analyst
(852) 3462 9579
rundong.wu@lhratingsglobal.com

Secondary Analysts
Joyce Huang
Senior Director
(852) 3462 9578
joyce.huang@lhratingsglobal.com

Monica Liu
Analyst
(852) 3462 9583
monica.liu@lhratingsglobal.com

Committee Chairperson
Ben Yau
Director

(852) 3462 9586
ben.yau@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2020.