

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hangzhou Linjiang Investment Development Co., Ltd.

HONG KONG, 18 October 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Hangzhou Linjiang Investment Development Co., Ltd. (“Linjiang Investment” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Qiantang District (“Qiantang government”) would provide strong support to Linjiang Investment if needed, in light of its full ownership of Linjiang Investment, Linjiang Investment’s strategic position as the major LGFV participating in infrastructure construction and state-owned asset operation in Qiantang District (“Qiantang”), especially in the Xiaoshan Linjiang High-tech Industrial Park (“Linjiang High-tech Zone”), as well as the strong linkage between the Qiantang government and Linjiang Investment, including control of the board of directors, management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Qiantang government may face significant negative impact on its reputation, business and financing activities should Linjiang Investment encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Linjiang Investment’s strategic importance would remain intact while the Qiantang government will continue to ensure Linjiang Investment’s stable operation.

Key Rating Rationales

Qiantang Government’s Ownership and Supervision: Linjiang Investment is wholly owned by the Qiantang government through the Hangzhou Qiantang New District Management Committee (“Qiantang District MC”). The Qiantang government has strong control and supervision over Linjiang Investment, including control of the board of directors, management supervision, decision on its strategic development and investment plan, supervision of its major funding decisions and daily operation. In addition, the Qiantang government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financials on a periodic basis.

Strategic Importance and Strategic Alignment: As an important and the major LGFV in Qiantang, Linjiang Investment is responsible for infrastructure construction, state-owned assets operation and industrial park construction in the region, especially in the Linjiang High-tech Zone, to promote the development of Qiantang. As the sole LGFV that undertakes the investment and financing for infrastructure construction in the Linjiang High-tech Zone, Linjiang Investment has the franchise advantage in the area and a clear division of functions

with the other LGFVs in Qiantang. Linjiang Investment's strategic planning and development have been aligned with the local government's economic and social policies.

Ongoing Government Support: The Qiantang government subsidizes Linjiang investment based on its operation and capital needs, apart from the scheduled repurchase of infrastructure construction related transactions. Linjiang Investment received subsidies of RMB170 million and RMB200 million in 2019 and 2020, respectively. As Linjiang Investment's net profit exceeded RMB200 million due to the higher investment income in 2021, the company did not receive any subsidy from the Qiantang government. Given the franchise advantage in infrastructure construction in the Linjiang High-tech Zone, we believe Linjiang Investment is likely going to receive government supports in the form of operational and/or financial subsidies if its net income were to experience a significant decline.

Moderate Financials and Sufficient Liquidity: Linjiang Investment had a total asset of RMB23.6 billion at end-June 2022. Its financial leverage as measured by total liabilities/total assets remained stable at a moderate level of c. 50%-57% between 2019 and 1H2022. Linjiang Investment has mostly relied on borrowings to fund its capital expenditure. Its total adjusted debt decreased to RMB9.8 billion at end-June 2022 from RMB13.1 billion at end-2021. The liquidity of Linjiang Investment was sufficient as it had a cash balance of approximately RMB1.1 billion and unused credit facilities of RMB 7.2 billion, compared with debt due within one year of c. RMB3.6 billion at end-June 2022. Linjiang Investment has access to various financing channels including onshore and offshore bank loans, bond issuances and non-traditional financing etc., to support its debt repayment and business operation. One of Linjiang Investment's subsidiaries, Linjiang Investment (Hong Kong) Co., Ltd., issued a USD300 million offshore bond in December 2019.

Moderately Weak Economic and Fiscal Conditions of Qiantang: Qiantang's GDP reached RMB121.8 billion in 2021, representing a year-on-year growth of 6.6%. Qiantang's GDP was mostly fueled by secondary and tertiary industries, accounting for 68.0% and 30.9% of its total GDP, respectively, in 2021. The Qiantang government's aggregate fiscal revenue was mainly derived from budgetary revenue and government-managed fund. The tax revenue accounted for over 90% of its budgetary revenue in the past three years. The debt ratio (i.e., total government debt divided by aggregate revenue) was at a moderately high level. At end-2021, the total outstanding amount of government debt was c. RMB27.9 billion (compared with c. RMB25.9 billion at end-2020), including RMB14.6 billion of general obligations and RMB13.4 billion for special projects.

Rating Sensitivities

We would consider downgrading Linjiang Investment's rating if (1) there is perceived weakening in support from the Qiantang government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Qiantang government's ownership of Linjiang Investment, or (3) there is a downgrade in our internal credit assessment on the Qiantang government.

We would consider upgrading Linjiang Investment's rating if (1) there is strengthened support from the Qiantang government, or (2) there is an upgrade in our internal credit assessment on the Qiantang government.

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 Linjiang Investment's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, 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
Toni Ho
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Committee Chairperson
Alex Kung
Senior Director
(852) 3462 9577
alex.kung@lhratingsglobal.com

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

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