

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Hejian State-owned Capital Investment Co., Ltd.

HONG KONG, 24 October 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Shandong Hejian State-owned Capital Investment Co., Ltd. (“SHSCI”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Heze Municipal People's Government (“Heze government”) would provide strong support to SHSCI if needed, in light of its full ownership of SHSCI, SHSCI’s strategic position as the major LGFV that is responsible for land development, infrastructure construction, resettlement housing construction in Heze, its important status as the sole state-owned asset operation entity in the region, and the strong linkage between the Heze government and SHSCI, including control and supervision over SHSCI’s board of directors, strategic alignment and ongoing operational and financial support. In addition, the Heze government may face significant negative impact on its reputation, business and financing activities should SHSCI encounter any operational or financial difficulties.

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

Key Rating Rationales

Heze Government’s Full Ownership: The Heze government has 100% ownership of SHSCI via the State-owned Assets Supervision and Administration Commission of the Heze government (“Heze SASAC”). SHSCI was established with an initial registered capital of RMB500 million in 2019. After several capital injections and equity transfers, the registered capital and paid-in capital of SHSCI was enlarged to RMB5 billion and RMB4 billion at end-June 2022, respectively.

High Strategic Importance to Heze: As the second largest LGFV in terms of asset size at end-June 2022 in Heze, SHSCI is responsible for infrastructures construction, resettlement housing construction, as well as land development and consolidation to promote the urban upgrading and economic development of Heze. As the only entity that undertakes the responsibility to operate state-owned asset in Heze, SHSCI’s land development function and its role in rural construction have been further enhanced with the sizeable land use right injection in the first half of 2022.

Government Supervision and Strategic Alignment: The Heze government has strong control and supervision over SHSCI, 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 Heze government has assessment mechanism over SHSCI and it appoints auditor to supervise the operating performance and financials on a periodic basis. SHSCI's strategic planning and development have been aligned with the local government's economic and social policies.

Ongoing Government Support: SHSCI received strong support from the government such as government subsidies, equity/asset injections and other financial supports. The Heze government repurchased some infrastructure projects and resettlement housing projects upon completion and provided policy supports to SHSCI to ensure its business operation. SHSCI has also received several equity transfers and asset injections from the Heze government, including some fixed assets and land use rights. We believe SHSCI is likely going to receive timely government support in the form of operational and/or financial subsidies, as well as ongoing capital/equity injections to reinforce its function as the only state-owned asset operation LGFV in the region.

Moderate Financials with Sufficient Liquidity: SHSCI had a total asset of RMB42.3 billion at end-June 2022. Its financial leverage as measured by total liabilities/total assets increased from 36.3% at end-2020 to 41.3% at end-2021, but dropped significantly to 23.6% at end-June 2022, mainly due to the substantial increase in the total assets after the injection of intangible and fixed assets. SHSCI relied on borrowings to fund its capital expenditure. Its total adjusted debt increased from RMB4.4 billion at end-2021 to RMB6.3 billion at end-June 2022. The liquidity of SHSCI was sufficient as it had a cash balance of approximately RMB3.2 billion and unused credit facilities of RMB25.8 million, compared with debt due within one year of c. RMB1.3 billion at end-June 2022. SHSCI has access to various financing channels, including bank loans and bond issuances etc., to support its debt repayment and business operation.

Moderate Economic and Fiscal Strength of Heze: In 2021, Heze realized RMB397.7 billion GDP, representing a year-over-year growth rate of 8.8%, which was higher than 2018 and 2019 (7.9% and 6.3%). Heze's economic growth was mainly fueled by the secondary and tertiary industries, accounting for 41.6% and 48.6% of total GDP, respectively in 2021. Heze's budgetary revenue growth slowed down in 2020 but bounced back in 2021, with a growth rate of 3.9% and 8.8%, respectively. The tax revenue as a percentage of budgetary revenue has stood at the 75-80% level since 2018. Heze's government debt and budget deficit were relatively high. Its government debt increased to RMB110.8 billion at end-2021 from RMB86.8 billion at end-2020, representing year-over-year growth of 27.6%, while the budget deficit has exceeded 100% for three straight years since 2019. Its fiscal debt ratio (total government debt outstanding/aggregate revenue) stayed at a high level of 98.1% at end-2021.

Rating Sensitivities

We would consider downgrading SHSCI's rating if (1) there is perceived weakening in support from the Heze government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction in the Heze government's

ownership of SHSCI, or (3) there is a downgrade in our internal credit assessment on the Heze government.

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

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