

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Huajing Assets Management Co., Ltd.

HONG KONG, 30 November 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Jiangsu Huajing Assets Management Co., Ltd. (“JHAM” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jingjiang (“Jingjiang government”) would provide strong support to JHAM if needed, in light of its indirect 100% ownership of JHAM, JHAM’s strategic importance as a major state-owned entity that is responsible for primary land development and city operation in Jingjiang City (“Jingjiang”), and the strong linkage between the Jingjiang government and JHAM, including control of the board of directors, management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Jingjiang government may face significant negative impact on its reputation and financing activities should JHAM encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Jingjiang government, through the Jingjiang State-owned Assets Supervision and Administration Office (“Jingjiang SASAO”), holds 100% equity of JHAM, and it is the ultimate controller of the company. The Jingjiang government supervises the company via Jingjiang SASAO, including control of the board of directors, senior management appointment and decision-making on major investment and financing plans. In addition, the local government has set up an annual mechanism assessment for JHAM and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: The Jingjiang government has authorized JHAM to undertake most primary land development in Jingjiang since 2019. In addition, JHAM is responsible for the grain collection and storage in the region to stabilize grain prices. The company is also engaged in the city operation, including water supply and sewage treatment for most residential and business users, local and intercity bus lines, as well as ferries across the Yangtze River in Jingjiang. JHAM’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: JHAM has received strong support from the local government, including equity injections, asset injections, operation subsidies and policy support from the Jingjiang government. JHAM received capital injection of RMB2.4 billion in

2021. In addition, the Jingjiang SASAO continued injecting various assets and equities into the company, such as lands, properties and equities of other state-owned entities. JHAM also enjoys a variety of financial subsidies, amounting to RMB1.9 billion from 2019 to the first nine months of 2022, mainly including sewage treatment plant construction subsidies, special funds for project construction and operational subsidies. We believe JHAM is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operations.

JHAM's Financial Matrix and Liquidity Position: JHAM's total assets grew significantly by 46.6% to RMB40.7 billion at end-September 2022 from RMB27.8 billion at end-2019. In 2020, the company mainly relied on debt borrowings, which increased by RMB4.8 billion, to fund its asset expansion, lifting the financial leverage, as measured by total liabilities/total assets, to 60.0% at end-2020 from 56.9% at end-2019. Yet it has been maintained at c.60% since then, owing to an asset injection of RMB2.4 billion from the government in 2021.

The liquidity of JHAM was tight. At end-September 2022, JHAM had a cash balance and unused credit facilities of c. RMB2.2 billion (including restricted cash of RMB438 million) and RMB5.9 billion, respectively, compared with its debt due within one year of c. RMB9.4 billion. Therefore, the company must successfully roll over its short-term bank borrowings and collect its receivables in time, or receive additional government support to relieve the liquidity pressure.

Economy and Fiscal Conditions of Jingjiang: As a new industrial port city on the north bank of the Yangtze River, Jingjiang's economic development level is relatively high. Jingjiang's economy maintained growth, with its GDP reaching RMB114.2 billion in 2021, representing a year-over-year growth rate of 10.6%.

However, the Jingjiang government's fiscal self-sufficiency rate was insufficient. Thus, it continues to receive subsidies from higher governments. Its government debt was increasing but still manageable. At end-2021, the total outstanding amount of government debt increased to c. RMB10.0 billion from c. RMB8.5 billion at end-2019, mainly due to the increase in special debt. Yet the government debt ratio (i.e., total government debt ratio/aggregate revenue) was 46.6% at end-2021, down from 58.3% at end-2019, mainly owing to the strong growth of government fund income.

Rating Sensitivities

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

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