

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

HONG KONG, 28 November 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Tonglu Newtown Development Investment Co., Ltd. (“TNDI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Tonglu County (“Tonglu government”) would provide moderately strong support to TNDI if needed, in light of its 100% ownership of TNDI, TNDI’s strategic importance as the sole state-owned entity for infrastructure construction and operation in Tonglu County Economic and Development Zone (“Tonglu EDZ”), and the linkage between the Tonglu government and TNDI, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Tonglu government may face negative impact on its reputation, business and financing activities if TNDI encounters any operational and financial difficulties.

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

Key Rating Rationales

Tonglu Government’s Ownership and Supervision: The Tonglu government, through the Tonglu County State-owned Assets Supervision and Administration Commission, Hangzhou City (“Tonglu SASAC”), holds 100% equity of TNDI. It is the ultimate controller of the company. The Tonglu government supervises the company, including control and supervision over the management, decisions on strategic development and investment and financing plans etc. In addition, the Tonglu government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Tonglu and Strategic Alignment: As an important state-owned entity in Tonglu County (“Tonglu”), TNDI is the sole infrastructure construction and operation entity in Tonglu EDZ, mainly responsible for the construction of municipal projects, as well as industrial parks and supporting facilities construction in the area with franchise advantages. TNDI is also responsible for the related demolition and relocation projects and restricted-price housing (mainly resettlement housing) projects in the region, so as to promote the economic and social development and enhance the comprehensive service capability of Tonglu, especially the Tonglu EDZ and the surrounding areas. TNDI’s business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: TNDI received support from the Tonglu government, including equity injection, asset injection, operation subsidy and policy support. Meanwhile, as the sole state-owned entity for infrastructure construction and operation in Tonglu EDZ, TNDI has certain advantages in project and resource acquisition. The Tonglu government also continued to inject various assets and equity to the company, while TNDI also enjoys a variety of policy support. TNDI had received a total subsidy amount of c. RMB7.2 million from 2020 to the first nine months of 2022. We believe TNDI is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and related infrastructure construction.

TNDI's Financial Matrix and Liquidity Position: TNDI's total assets showed a significant growth trend in the past years and reached RMB2.23 billion at end-September 2022, mainly due to the increase of inventory and intangible assets. TNDI's financial leverage (total liabilities to assets) increased to 65.9% and its adjusted debt increased to c. RMB13.3 billion at end-September 2022. The liquidity of TNDI was relatively tight. TNDI had a cash balance and unused credit facilities of c. RMB0.2 billion and RMB2.0 billion at end-September 2022, compared with its debt due within one year of c. RMB2.8 billion. Nevertheless, TNDI has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Strength of Tonglu: As one of municipal counties under the jurisdiction of Hangzhou City, Tonglu's economy maintained steady growth, with GDP reaching RMB41.4 billion in 2021, up 9.5% year-on-year. The GDP was mainly fueled by the second and tertiary industries, which accounted for 45.4% and 48.3% of total GDP in 2021. Its fixed asset investment growth rate recorded double-digit growth in the past three years and increased by approximately 30% in 2021.

The aggregate fiscal revenue of the Tonglu government was mainly derived from the budgetary revenue and government fund. The Tonglu government's budgetary revenue was relatively stable at RMB3.4 billion in 2019 and 2020, while increased to RMB3.8 billion in 2021, where its tax revenue accounted for c. 90% of its budgetary revenue in the past three years. However, given the impact from regional development pace and fluctuating state-owned land transfer revenue, Tonglu's government fund income was more volatile, which decreased by c. 38% to RMB4.8 billion in 2021. The fiscal self-sufficiency rate of the Tonglu government was insufficient, thus it continued to receive subsidies from higher governments. Besides, the Tonglu government's budgetary expenditure continued to rise in 2019-2021 due to the impact from the epidemic. At end-2021, the total outstanding amount of government debt increased to c. RMB8.3 billion from c. RMB6.6 billion at end-2019, mainly due to the increase in special purpose bonds. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Tonglu government was c. 70.6% at end-2021, down from c. 87.6% at end-2019.

Rating Sensitivities

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

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