

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Dongjin Huaizhou Xincheng Investment Group Co., Ltd.

HONG KONG, 9 December 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chengdu Dongjin Huaizhou Xincheng Investment Group Co., Ltd. (“CDHXI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects the People’s Government of Jintang District’s (“Jintang government”) full ownership of CDHXI, CDHXI’s strategic position as the core construction and operation entity responsible for project construction and management, residential construction and infrastructure construction and operation in Jintang District (“Jintang”), especially in Huaizhou Xincheng Functional Area (“Xincheng”) as well as the linkage between the Jintang government and CDHXI, hence a high possibility that the Jintang government would provide strong support to CDHXI if needed. In addition, the Jintang government may face significant negative impact on its reputation, business and financing activities should CDHXI encounter any operational or financial difficulties.

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

Key Rating Rationales

Importance to Jintang and Strategic Alignment: CDHXI is a core construction and operation entity responsible for project construction and management, residential construction and infrastructure construction and operation in Jintang. CDHXI mainly undertakes urban comprehensive development in Xincheng. It also plays an important role in promoting the development strategy of Chengdu’s “Eastward” development theme, optimizing industrial resource allocation, and improving industrial operation efficiency in the region. CDHXI’s main business focuses on engineering construction, supplemented by building materials sale, transportation operation, and other business. CDHXI’s strategic and development plan have been aligned with the government’s strategy plan, aiming to promote the comprehensive urban development in Jintang and Xincheng.

Jintang Government’s Full Ownership: The Jintang government holds 100% stake of CDHXI through the State-owned Assets Supervision, Administration and Finance Bureau of Jintang County, Chengdu City (“Jintang SASAFB”). The Jintang government is the ultimate controller of the company.

Government Support: CDHXI received supports from the local government for its business operation historically, including asset and equity transfers and government subsidies. CDHXI

received several supports in the form of state-owned asset transfers and equity transfers through its shareholder in past three years. In addition, CDHXI received financial subsidies of RMB2.1 billion from the local government between 2019 and the first six months of 2022, mainly for supporting its business operation. We believe CDHXI is likely going to receive government support.

Moderate Financials and Weak Liquidity Position: CDHXI's total assets showed a continuous growth trend in past three years and reached RMB82.4 billion at end-June 2022. The financial leverage (total liabilities to assets) and total debt capitalization ratio of CDHXI were 44.3% and 35.0% at end-June 2022, respectively. The total adjusted debt of CDHXI slightly increased from RMB23.3 billion at end-2021 to RMB24.8 billion at end-June 2022, mainly due to the increase in long-term payables. CDHXI's liquidity was tight as it had a cash balance of approximately RMB0.9 billion and unused credit facilities of RMB3.3 billion at end-June 2022, compared with its outstanding debt of c. RMB5 billion to be due within one year. CDHXI has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. CDHXI has access to financing channels including bank borrowings and non-traditional financing channels such as trust loan and finance lease etc.

Economy and Moderate Fiscal Strength of Jintang: Jintang realized GDP of RMB52.4 billion in 2021, representing a year-on-year growth rate of 9.0%. Jintang's GDP was mostly fueled by secondary and tertiary industries, accounting for 39.0% and 47.8% of its total GDP in 2021, respectively. Jintang's population reached c. 0.8 million with an urbanization rate of c. 42% in 2021.

The Jintang government's budgetary revenue increased steadily in the past three years, mainly due to the increase of non-tax revenue such as income from state-asset operation and paid right of use for state-asset. The tax revenue accounted for 41.9% of the budgetary revenue in 2021, down from 48.3% in 2020 as a result of the related tax-advantaged policies. The budget deficit of Jintang government improved in 2021. The fiscal self-sufficiency rate of the Jintang government was moderately high (c. 61% in 2021) but still insufficient, hence it continuously received a certain number of subsidies from higher government authorities. The revenue from the government-managed fund increased to RMB5.7 billion in 2021 from RMB5.0 billion in 2020. The Jintang government's debt ratio (total debt outstanding/aggregate fiscal revenue) was relatively high in 2021, due to the increase of total debt outstanding from RMB14.0 billion at end-2020 to RMB17.4 billion at end-2021, which was mainly caused by the increase of government special debt.

Rating Sensitivities

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

We would consider upgrading CDHXI's rating if (1) there is strengthened support from the Jintang government, or (2) there is an upgrade in our internal credit assessment on the Jintang 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 CDHXI's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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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