

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hubei Optics Valley East State-owned Capital Investment and Operation Group Co., Ltd.

HONG KONG, 23 December 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Hubei Optics Valley East State-owned Capital Investment and Operation Group Co., Ltd. (“HOVE” or “the Company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Daye City (“the Daye government”) would provide strong support to HOVE if needed, in light of its full ownership of HOVE, HOVE’s strategic importance as the most important local investment and development company (“LIDC”) that is responsible for infrastructure construction, land consolidation and city operations in Daye, and the strong linkage between the Daye government and HOVE, including control of the board of directors, management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Daye government may face significant negative impact on its reputation and financing activities should HOVE encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Daye government, the ultimate controller of HOVE, holds 100% equity of HOVE through the State-owned Assets Supervision and Administration Bureau of Daye (“Daye SASAB”). The Daye government supervises the company via Daye SASAB, 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 assessment mechanism for HOVE and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: HOVE is the most important LIDC that is responsible for land consolidation and infrastructure construction in Daye. Its project scope mainly includes roads, drainage networks, settlement houses, industrial parks, schools and afforestation, etc. The company is also responsible for most land consolidation in Daye. In addition, the company participates in city operations, including water supply and sewage treatment, as well as public transportation. HOVE’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: HOVE received increasing financial subsidies from the Daye government in the past three years, amounting to RMB416 million, 587 million, 626 million and 539 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. These subsidies were provided to support HOVE's operations relating to delivering public goods and public services. We expect HOVE to enjoy ongoing financial subsidies in the future.

Economy and Fiscal Conditions of Daye: The pandemic of COVID-19 in 2020 led to widespread lockdown and production suspension in the whole Hubei Province, which had a significant negative impact on Daye's economy. In 2021, Daye's economy recovered quickly. Its GDP reached RMB75.1 billion, with a growth rate of 14.4%, while fixed asset investment grew by 30.7% year-on-year. Both budgetary revenue and government-managed fund income of the Daye government rebounded significantly in 2021, recording growth rates of 50.2% and 207.3%, respectively. However, we expect that such high growth rates are unlikely to sustain in the coming years.

The fiscal self-sufficiency rate of the Daye government was relatively low, especially in 2020. Yet its government debt was manageable in the past three years, despite the fact that the total outstanding government debt increased to c. RMB8.3 billion at end-2021 from c. RMB6.7 billion at end-2019. Daye's government debt ratios (i.e., total government debt divided by aggregate revenue) stayed at c. 66-68% level, except 75.7% in 2020.

HOVE's Financial Matrix and Liquidity Position: HOVE's financial leverage, as measured by total debts/capitalization was manageable, which was 47.1% at end-September 2022, while its total liabilities/total assets ratio was 53.2%. Yet the company's assets liquidity was weak, as its assets mainly consisted of inventories and construction in progress that could take a long time to monetize, as well as other receivables with an uncertain collection schedule.

At end-September 2022, HOVE had cash of RMB2.4 billion (including restricted cash of RMB1.7 billion), compared with its debts due within one year of RMB9.3 billion. Yet the company also had available bank credit lines of RMB14.2 billion. These could support HOVE's refinance and operations to some extent.

Moderately High Contingent Liability Risk: HOVE's contingent liability risk was moderately high. It provided financial guarantees of RMB6.6 billion to external parties at end-September 2022, representing 24.9% of the company's equity. That included financial guarantees to SOEs, local investment and development companies and public institutions collectively of c. RMB5.6 billion. The rest of RMB949 million was provided to privately or collectively owned companies, from which HOVE usually requires counter-guarantee measures.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 HOVE'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.

Contact Information

Primary Analyst
Roy Luo
Senior Associate
(852) 3462 9582
roy.luo@lhratingsglobal.com

Committee Chairperson
Ben Yau
Senior Director
(852) 3462 9586
ben.yau@lhratingsglobal.com

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

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2022.