

# Huangshi Yimin Investment Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	21 December 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Huangshi Yimin Investment Co., Ltd. (“HYI” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Huangshi City (“Huangshi government”) would provide moderately strong support to HYI if needed, in light of its indirectly majority ownership of HYI, HYI’s strategic importance as the important Local Investment and Development Company (“LIDC”) for affordable housing construction in Huangshi Economic and Technological Development Zone (“Huangshi EDZ”), and the linkage between the Huangshi government and HYI, including supervision over the management, strategic alignment, as well as policies support and assets injection. In addition, the Huangshi government may face negative impact on its reputation, business and financing activities if HYI encounters any operational and financial difficulties.

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Huangshi government through the LIDC of the State-owned Assets Supervision and Administration Commission of Huangshi (“Huangshi SASAC”), Huangshi Urban Development Investment Group Co., Ltd. (“UDIG”), holds majority equity of HYI. Through the shareholder of HYI, the Huangshi government has strong supervision over the company, including supervision of the management, development strategy and investment plan decisions, major financing plans and daily operations. In addition, the Huangshi government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** As an important LIDC in Huangshi, HYI is mainly responsible for the construction of affordable housing projects in Huangshi EDZ. In order to ensure the further development of the company along with the development planning of the Huangshi EDZ and its business development needs, the Management Committee of Huangshi EDZ (“Huangshi EDZMC”) has given a series of support and preferential policies in the construction of affordable housing projects, and the company’s regional monopoly advantage is relatively strong. HYI’s strategic planning and development have been aligned with the local government’s economic and social policies. Huangshi EDZ is a key development area for the local government in the future, and the company will continue undertaking the construction of affordable housing projects and urban renewal in the region.

**Ongoing Government Support:** HYI has been supported by the Huangshi government and the Huangshi EDZMC in terms of policy, land and project resources since its establishment. The government support it has received was mainly in the form of assets injection. The amount of asset injected by the local government and shareholder was approximately RMB2.1 billion, RMB543 million and RMB260 million in 2020, 2021 and the first nine months of 2022, respectively. The main assets include the agent construction project, underground

### Key Figures of Huangshi and HYI

(RMB billion)	2020	2021
<b>Huangshi</b>		
GDP	164.1	186.6
GDP growth rate (%)	-5.9	13.0
Budgetary revenue	8.8	12.6
Government fund	16.1	22.0
Transfer payment	13.2	14.5
Budgetary expenditure	28.6	26.3
<b>HYI</b>		
Assets	17.4	18.9
Equity	7.8	8.5
Revenue	3.3	7.0

Source: Public information, HYI and Lianhe Global’s calculations

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

garage and low-rent housing, etc. In addition, the company receives certain operating subsidies from the local government from time to time.

**HYI's Financial and Liquidity Position:** HYI is one of the important state-owned entities in Huangshi, with total asset of c. RMB18.8 billion at end-September 2022. The company's financial leverage as measured by total liabilities/total assets decreased from 69.0% at end-2019 to 53.4% at end-September 2022, mainly due to the increase in the size of the company's assets and projects transferred by the Huangshi EDZMC and the shareholder, as well as the decrease in liabilities. The company primarily relies on bank borrowings to fund its capital expenditures, followed by non-traditional financing. The company's total debt was c. RMB7.09 billion, of which short-term and long-term debt accounted for 35.4% and 64.6% of its total debt, respectively, at end-September 2022. Meanwhile, HYI had a cash balance of c. RMB680 million (among which the restricted cash was RMB620 million) and unused credit facilities of c. RMB4.45 billion, compared with its debt due within one year of c. RMB2.51 billion. Considering that the company currently has a number of projects under construction and proposed projects, we expect the company to have certain capital expenditure needs in the future.

**Economy and Fiscal Condition of Huangshi:** Huangshi is a prefecture-level city in the southeast of Hubei Province. In 2021, the GDP of Huangshi was c. RMB186.6 billion, with a year-over-year growth rate of 13.0%. The Huangshi government's fiscal revenue fluctuated in the past few years due to the impact of COVID-19. The budgetary revenue of the Huangshi government grew rapidly in 2021, reaching c. RMB12.6 billion, with a year-over-year growth rate of 42.5%, in which tax revenue accounted for 73.0% of its budgetary revenue. The fiscal self-sufficiency rate of the Huangshi government was insufficient that it continued to receive subsidies from higher governments. In addition, the government-managed funds income was also an important part of the aggregate fiscal revenue of the local government, but it was vulnerable to market and policy changes. The outstanding debt of local government continuously increased in the past three years, mainly due to the increase of special debt. The Huangshi government had an outstanding debt of RMB34.1 billion at end-2021.

### Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Huangshi

Huangshi is a prefecture-level city in the southeast of Hubei Province. Huangshi has a regional advantage that it is the transportation hub of Hubei, Jiangxi and Anhui Provinces and it is also an important raw material industrial base in Central China. By the end of 2021, Huangshi has jurisdiction over 4 districts, 1 county and 1 county-level city, with a total area of 4,583 square kilometers and a residential population of about 2.44 million, with an urbanization rate of 66.3%. Huangshi's GDP was c. RMB186.6 billion, representing a year-over-year growth rate of 13.0% in 2021. In terms of industrial structure, Huangshi's GDP was mainly dominated by the secondary industry and the tertiary industry, among which the proportion of the tertiary industry increased year by year. Huangshi's GDP per capita reached c. RMB76,000 in 2021, while the GDP per capita of Hubei Province was c. RMB86,000 in the same period.

<b>Huangshi's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
GDP	176.7	164.1	186.6
-Primary industry (%)	5.9	7.1	6.8
-Secondary industry (%)	50.9	48.6	45.4
-Tertiary industry (%)	43.2	44.3	47.8
GDP growth rate (%)	8.2	-5.9	13.0
Fixed asset investment	192.6	157.2	197.1
Fixed asset investment growth rate (%)	12.6	-18.4	25.4
Population (million)	2.5	2.5	2.4

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Huangshi

The aggregate fiscal revenue of the Huangshi government was mainly derived from the budgetary revenue and government fund. Due to the impact of COVID-19, the budgetary revenue of the Huangshi government fluctuated from 2019 to 2021. The Huangshi government's budgetary revenue grew rapidly in 2021, reaching c. RMB12.6 billion with a year-over-year growth rate of 42.5%, in which the tax revenue accounted for 73.0% of its budget revenue. Affected by the fluctuating budget revenue, the fiscal deficit of the Huangshi government also showed a fluctuating trend for the past three years and remained at a high level. The fiscal self-sufficiency rate of the Huangshi government was insufficient and it continued to receive subsidies from higher governments. In addition, the government-managed funds income was also an important part of the aggregate fiscal revenue of the local government, but it was vulnerable to market and policy changes.

The outstanding debt of the Huangshi government continuously increased in the past three years, mainly due to the increase in special debt. The local government had an outstanding debt of RMB34.1 billion at end-2021, including RMB16.2 billion of general obligations and RMB17.9 billion of special debt. The debt ratio (total debt balance/ aggregate fiscal revenue) of the Huangshi government was moderately high. By the end of 2021, the local government's debt ratio has decreased from that at end-2020, mainly due to the faster growth of fiscal revenue in 2021.

<b>Huangshi's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Budgetary revenue	11.9	8.8	12.6
Budgetary revenue growth rate (%)	2.2	-26.2	42.5
Tax revenue	8.4	6.3	9.2
Tax revenue (% of budgetary revenue)	70.2	71.2	73.0
Government fund income	19.1	16.1	22.0
Transfer payment	13.0	13.2	14.5
<b>Aggregate revenue</b>	<b>44.8</b>	<b>38.7</b>	<b>49.9</b>
Budgetary expenditure	26.5	28.6	26.3
Budget deficit <sup>1</sup> (%)	-122.0	-224.5	-109.2

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information, HYI and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

HYI was established with an initial registered capital of RMB10 million in 2008. In 2009, the controlling shareholder of the company changed to Huangshi Cihu High & New Technology Development Company Ltd. ("CHNT"), which held 99.9% equity interest of the company. The registered capital of the company increased to RMB100 million in 2013, mainly increased by capital injection received from CHNT. By end-October 2022, CHNT has become the only shareholder of the company after several shareholder changes. The ultimate and actual controller of the company is the Huangshi SASAC.

CHNT is a subsidiary of UDIG (the largest LIDC in Huangshi in terms of asset size) via Huangshi Urban Construction Investment and Development Co., Ltd., it is also an important infrastructure construction company of Huangshi EDZ. From the perspective of its business, CHNT has formed a diversified business system with land consolidation and project construction as the core, and industrial park leasing and property management as the auxiliary.

## Strategic Importance and Government Linkage

### Strategic Importance of HYI to Huangshi

As an important LIDC in Huangshi, HYI is mainly responsible for the construction of affordable housing projects in Huangshi EDZ. In order to ensure the further development of the company along with the development planning of the Huangshi EDZ and its business development needs, the Huangshi EDZMC has given a series of support and preferential policies in the construction of affordable housing projects, and the company's regional monopoly advantage is relatively strong. HYI's strategic planning and development have been aligned with the local government's economic and social policies. Huangshi EDZ is a key development area for the local government in the future, and the company will continue undertaking the construction of affordable housing projects and urban renewal in the region.

### Linkage with the Local Government

HYI has linkage with the local government, as the Huangshi government indirectly holds the majority (99.8%) of HYI's equity through subsidiary of Huangshi SASAC. The Huangshi government has strong supervision over HYI, including supervision of the management, development strategy and investment plan decisions, major financing plans and daily operations. In addition, the Huangshi government has formulated a performance appraisal

policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

### Government Support

HYI has been supported by the Huangshi government and the Huangshi EDZMC in terms of policy, land and project resources since its establishment. The government support it has received was mainly in the form of assets injection. The amount of asset injected by the local government and shareholder was approximately RMB2.1 billion, RMB543 million and RMB260 million in 2020, 2021 and the first nine months of 2022, respectively. The main assets include the agent construction project of CHNT, underground garage and low-rent housing transformed by the Huangshi EDZMC. In addition, the company also receives certain operating subsidies from the local government from time to time.

### Business Profile

#### The Important LIDC Responsible for Affordable Housing Construction in Huangshi EDZ

As an important Local Investment and Development Company in Huangshi EDZ, HYI is mainly responsible for the construction of affordable housing projects in the region. The total revenue of the company was approximately RMB383 million, RMB329 million, RMB699 million and RMB226 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. From the perspective of business structure, the company's main source of income is the project construction business income, followed by the project management fee income and leasing income. From 2019 to the end of September 2022, the company's project construction business revenue accounted for more than 90% of its total revenue, thus the performance of this business segment has a high impact on its total revenue scale. During the same period, the company's gross profit remained at a level of 20%-30%. The project management fee and leasing business with high margin played a certain role in promoting its total gross profit margin.



## Project Construction and Management Fee

As an important company of affordable housing construction and management in Huangshi EDZ, the company is responsible for the financing and construction of affordable housing projects after signing the agent construction agreement with the Huangshi government, Huangshi EDZMC, Finance Bureau of Huangshi EDZ and CHNT. After the completion of the project, the total cost of investment will be audited and confirmed by relevant institution. The entrusting party will pay the corresponding financial costs and service fees to the company after the project is handed over, according to the proportion agreed in the payment agreement (i.e., 15%-30%). The payment collection period of different projects ranges from 5 to 20 years. There is an uncertainty in some projects that are affected by the economic and financial impact of Huangshi EDZ. At present, the company has a number of projects under construction and planned projects, and there is a certain capital expenditure demand in the future. With the gradual progress of the development plan of Huangshi EDZ, HYI's project construction income is expected to sustain in the near future.

The project management fee business is basically consistent with the project construction business in the scope of project implementation. The company is responsible for the financing and construction of infrastructure projects after signing the project management cooperation agreement with CHNT. After the completion of the project, the entrusting party will conduct an audit to confirm the total investment cost. the entrusting party shall arrange the project payment collection and pay the corresponding financial cost and service fee (no less than 15%) to the company, according to the project progress.

## Other Business

HYI's other business was leasing business, which is mainly the income from leasing of its own property. Although the gross profit margin of this segment is relatively high, its small scale has limited impact on and contribution to the company's operating revenue.

## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Sept 2022</b>
Total Asset	18,044	17,424	18,943	18,775
Equity	5,601	7,772	8,459	8,754
Debt	8,419	8,148	7,758	7,088
Debt / (Debt + Equity) (%)	60.1	51.2	47.8	44.7
LT Debt	7,169	4,941	5,758	4,577
LT Debt / (LT Debt + Equity) (%)	56.1	38.9	40.5	34.3

*Source: The company's financial reports and Lianhe Global's calculations*

HYI's total assets increased from c. RMB18.0 billion at end-2019 to c. RMB18.8 billion at end-September 2022, and the asset structure was relatively stable. At end-September 2022, the company's assets mainly consisted of inventory, construction in progress, investment property and accounts receivable. The inventory was mainly composed of construction projects and land use rights. Benefiting from the transfer of CHNT's projects in 2020, the construction in progress of the company continued to increase. Correspondingly, the company's other receivables to CHNT have declined significantly. The investment property of the company mainly included the underground parking garage of residential area allocated by Huangshi EDZMC, as well as shops and parking garages in other areas. The

receivables were mainly to CHNT with a relatively low recovery risk. Although the asset structure of HYI was mainly current assets, its asset liquidity was moderately weak considering that its construction projects account for a large proportion and the project payback period is long.



HYI's financial leverage ratio (total liabilities/total assets) has declined year by year in recent years. It was 69.0%, 55.4%, 55.4% and 53.4% at end-2019, 2020, 2021 and end-September 2022, respectively. At end-September 2022, the company's liabilities mainly consisted of long-term borrowings, other payables, non-current liabilities due within one-year, long-term payables and short-term borrowings. Other payables were mainly project payments, while long-term payables mainly included finance lease and trust loan payments, as well as government special debt. At end-September 2022, the company's total debt was c. RMB7.09 billion, of which short-term and long-term debt accounted for 35.4% and 64.6% of its total debt, respectively. The equity structure of the company was relatively stable. Benefiting from the assets and projects transferred by the Huangshi EDZMC and CHNT, the capital reserve of HYI has maintained growth in the past two years.

## Cash Flow

<b>Cash Flow</b> (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	3,365	6,185	6,909	4,824
Cash Outflows from Operation	6,246	5,607	4,554	3,322
<b>Net CF from Operation</b>	<b>-2,881</b>	<b>578</b>	<b>2,355</b>	<b>1,502</b>
Cash Inflows from Investment	465	56	5	10
Cash Outflows from Investment	1,313	684	724	747
<b>Net CF from Investment</b>	<b>-849</b>	<b>-628</b>	<b>-718</b>	<b>-737</b>
Cash Inflows from Financing	5,393	4,705	3,011	1,862
Cash Outflows from Financing	1,835	4,736	4,524	3,132
<b>Net CF from Financing</b>	<b>3,558</b>	<b>-32</b>	<b>-1,514</b>	<b>-1,270</b>
Net Increase in Cash and cash equivalent	-172	-83	124	-505

Source: The company's financial reports



### Debt Servicing Capability

The liquidity of HYI was moderate. At end-September 2022, HYI had a cash balance of c. RMB680 million (among which the restricted cash was RMB620 million) and unused credit facilities of c. RMB4.45 billion, compared with its debt due within one year of c. RMB2.51 billion. HYI has access to various financing channels, including bank loans, bond issuance and non-traditional financing (such as trust loan and finance lease), to support its debt repayment and business operations. At end-September 2022, bank loans, corporate bonds, special bonds and non-traditional financing accounted for 58.0%, 9.3%, 11.3% and 21.4% of its financing structure, respectively, with non-traditional financing accounted for a relatively high proportion.

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