

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Foshan Nanhai Lianda Investment (Holding) Co., Ltd.

HONG KONG, 10 January 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Foshan Nanhai Lianda Investment (Holding) Co., Ltd. (“FNLI” or “the Company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Nanhai People’s Government of Foshan (“the Nanhai government”) would provide strong support to FNLI if needed, in light of its full ownership of FNLI, FNLI’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for public facility construction, urban renewal and state-owned properties’ leasing and management in Nanhai District, and the strong linkage between the Nanhai government and FNLI, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Nanhai government may face significant negative impact on its reputation and financing activities should FNLI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Nanhai government is FNLI’s ultimate controller, holding 100% equity in FNLI and supervising the company’s senior management appointment, major operation, investment and financing plans through Foshan Nanhai Stated-owned Assets Supervision and Administration Bureau (“Nanhai SASAB”). In addition, Nanhai SASAB has set up an annual assessment mechanism for Lianda and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: FNLI is an important LIDC that is responsible for public facility construction, urban renewal and state-owned properties’ leasing and management in Nanhai District. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

FNLI is responsible for developing the Lishui industrial park renewal project (“Lishui project”), which is a large-scale urban renewal project aiming to transfer the Lishui industrial park to a new urban. It is one of the most important urban renewal projects in Nanhai District that supports local economic and social development by expanding urban space, improving the region’s environment and living conditions and upgrading its industries.

The Nanhai government also funds FNLI to develop Nanhai Cultural Center and Nanhai Sports Center, and designates it as the operator upon completion, aiming to enhance FNLI's function in city operations further.

Ongoing Government Support: FNLI received financial subsidies of RMB23.5 million between 2019 and end-September 2022, mainly to support FNLI's operations relating to delivering public goods and public services. We expect the company to receive ongoing government support in the future.

Although the total amount of financial subsidies was relatively small, the Nanhai government had injected state-owned assets that could generate stable income into FNLI. In addition, the company received asset injections amounting to RMB187.2 million between 2019 and end-September 2022, including cash capital injection of RMB70 million in 2020.

Economy and Fiscal Conditions of Nanhai District: Nanhai District's economy is well-developed. It was ranked 12th among China's Top 100 Districts and 2nd among the five districts in Foshan in 2021. This was benefited from the continuous optimization of its industrial structure by introducing "two high and four new industries" (i.e., high-tech manufacturing and high-quality service industries, as well as new energy, new materials, new generation of IT and new biomedical industries). Nanhai District also fully participates in developing the Guangzhou-Buddhist city integration and Guangdong-Hong Kong-Macao Greater Bay Area.

The Nanhai government's budgetary revenue grew steadily in the past three years, which increased to RMB26.7 billion in 2021 from RMB24.5 billion in 2019, representing a compound annual growth rate of 2.8%. The fiscal self-sufficiency of the Nanhai government was relatively strong. It recorded budget deficit of -3.1%, -16.1% and -8.6% in 2019, 2020 and 2021, respectively. However, its government debt increased significantly to RMB50.2 billion at end-2021 from RMB34.1 billion at end-2019, mainly due to the increase in special debt to support a series of major projects.

FNLI's Financial Matrix and Liquidity Position: FNLI's asset size grew significantly to RMB17.3 billion at end-September 2022 from RMB8.2 billion at end-2019 due to the intensive investment in the Lishui project, which is a large-scale urban renewal project launched in 2020, with a total budget investment of RMB40.3 billion and expected to be completed in nine years.

FNLI mainly relies on borrowings to fund the Lishui projects. The company had no debt at end-2019 and total debts of RMB6 billion at end-September 2022, lifting the financial leverage as measured by total debts/capitalization to 46.3%. We expect FNLI's financial leverage to increase constantly in the next two to three years, given the high financing needs of the Lishui project.

As most of FNLI's debts and their first repayment source are tied to the Lishui project, its successful implementation is vital. FNLI faces a maturity wall in 2025, with debts of RMB3.2 billion will become due, accounting for 53.5% of its total debts at end-September 2022. The company plans to use sales proceeds from the Lishui project (mainly sales of residential and

commercial properties) to meet its financial obligation. Yet this could be subject to project delays and property market conditions.

FNLI's liquidity was moderately tight. At end-September 2022, FNLI had cash of RMB492 million (all unrestricted), compared with its debts due within one year of RMB1.1 billion. The company also had available bank credit lines of RMB3.1 billion, which could support FNLI's refinance and operations in the short term.

Rating Sensitivities

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

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