

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Shouguang Jinxin Investment Development Holding Group Co., Ltd.

HONG KONG, 18 January 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shandong Shouguang Jinxin Investment Development Holding Group Co., Ltd. (“SSJID” or “the Company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Shouguang people’s government (“the Shouguang government”) would provide strong support to SSJID if needed, in light of its full ownership of SSJID, SSJID’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for state-owned capital Investment, project construction, and state-owned assets operation in Shouguang, and the strong linkage between the Shouguang government and SSJID, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Shouguang government may face significant negative impact on its reputation and financing activities should SSJID encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Shouguang government is SSJID’s ultimate controller, holding 100% equity in SSJID and supervising the company’s senior management appointment, major operation, investment and financing plans through Shouguang State-owned Assets Operating Center (“Shouguang SAOC”). In addition, Shouguang SAOC has an annual assessment mechanism for SSJID and appoints auditors to review its operating performance and financial position regularly.

Strategic Importance and Strategic Alignment: SSJID is an important LIDC that is responsible for state-owned capital Investment, project construction, and state-owned assets operation in Shouguang. SSJID invested in manufacturing companies and financial institutions in Shouguang to support local economic development. The company also participated in infrastructure development and shanty town renovation projects.

SSJID’s business operations and strategic planning have been aligned with the local government’s economic and social development policies. According to the company, SSJID will be responsible for developing the Shouguang East Railway Station, which is one of the twelve railway stations to be built for the proposed Tianjin-Weifang high-speed rail line, an important section of the proposed second line of the Beijing-Shanghai high-speed railway.

Ongoing Government Support: SSJID received stable financial subsidies of RMB203 million, 303 million, 677 million and 550 million in 2019, 2020, 2021 and the first nine months of 2022, respectively, mainly from the Hou town government to support SSJID developing infrastructures in Hou Town. In addition, the Shouguang government transferred 70% equity of Shouguang Kefa Investment Limited and 49% equity of Shouguang Guangheng Landscaping Engineering Co., Ltd. to SSJID free of charge. However, these companies lack visible operating history.

The Shouguang government has no additional capital injection to SSJID since the government enlarged both the registered capital and paid-in capital of SSJID to RMB360 million from RMB110 million in February 2014. Yet the Shouguang government had injected water and heat supply networks into SSJID, which could generate stable leasing incomes for the company.

Economy and Fiscal Conditions of Shouguang: Renowned as China Vegetable Capital, and listed on China's Top 100 counties, Shouguang has a well-developed vegetable industry based on greenhouse vegetable production and integrated with automation technologies. It is also an important production place of sea salt, providing food condiments and chemical materials countrywide. In addition, Shouguang has a manufacturing industry dominated by petrochemical, steel and papermaking. Shouguang's GDP rebounded by 10.5%, compared with compared Shandong Province's 8.3% and China's 8.1% in 2021.

The Shouguang government's budgetary revenue rebounded to RMB10.3 billion in 2021, representing a solid growth rate of 10.2%, after slightly dropping in 2020 mainly due to the Covid-related tax cut. The government fund income grew fast in the past three years, becoming increasingly essential to the Shouguang government. However, the government fund income, mainly generated by land use right transfers, is vulnerable to the property market downturn. Moreover, the Shouguang government's debt has approached the government debt ceiling (99.8% in 2021), which may restrict its debt financing capacity in the coming years.

SSJID's Financial Matrix and Liquidity Position: SSJID's asset size grew significantly by 133.7% to RMB22.7 billion at end-September 2022 from RMB9.7 billion at end-2019, mainly owing to the company's consolidation of Shandong Molong Petroleum Machinery Company Limited (002490.SZ/00568.HK), as well as its active participation in equity investment and project construction activities. The company's total debts surged by 278.0% to RMB10.1 billion from RMB2.7 billion over the same period, lifting its financial leverage level, as measured by total debts/capitalization, to 52.2% from 36.8%, and the total liabilities/total assets ratio to 59.2% from 52.8%.

SSJID's asset liquidity and quality were moderately weak, as non-current assets accounted for the majority of the company's total assets (57.8%), and some lacked an active market for determining fair value. At end-September 2022, SSJID had cash of RMB2.1 million (including restricted cash of RMB1.7 billion) and available bank credit lines of RMB562 million, compared with its debts due within one year of RMB5.1 billion. Therefore, the company must successfully

roll over its short-term bank loans (c. RMB1.9 billion at end-September 2022) and obtain additional financing sources or government supports to relieve the liquidity pressure.

SSJID's contingent liability risk was high as it provided financial guarantees of RMB2.8 billion to external parties at end-September 2022, representing 30.4% of the company's equity. Moreover, SSJID had restricted assets of RMB4.2 billion at end-September 2022, representing 18.7% of the company's total assets, which were mainly pledged to banks for obtaining bank facilities.

Rating Sensitivities

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

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