

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Pingtan Comprehensive Pilot Zone City Development Group Co., Ltd.

HONG KONG, 28 February 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Pingtan Comprehensive Pilot Zone City Development Group Co., Ltd. (“Pingtan CDG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the de facto local government of Pingtan Comprehensive Pilot Zone (“PCPZ”), the Management Committee of PCPZ (“PCPZ MC”) would provide strong support to Pingtan CDG if needed, in light of its full ownership of Pingtan CDG, Pingtan CDG’s strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction and city operation in PCPZ, and the linkage between PCPZ MC and Pingtan CDG, including appointment and supervision of the senior management, strategic alignment, major investment and financing decisions and ongoing operational and financial support. In addition, PCPZ MC may face significant negative impact on its reputation and financing activities if Pingtan CDG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that Pingtan CDG’s strategic importance would remain intact while the PCPZ MC will continue to ensure Pingtan CDG’s stable operation.

Key Rating Rationales

Government’s Ownership and Supervision: PCPZ MC holds 100% stake in Pingtan CDG via the State-owned Assets Administration Bureau of Pingtan Comprehensive Pilot Zone (“PCPZ SAAB”). PCPZ MC has strong supervision over the company through PCPZ SAAB, including appointment and supervision of the senior management, decisions on development strategy, financial and investment planning. In addition, PCPZ SAAB has formulated a performance assessment policy for the company, and would regularly appoint auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: Pingtan CDG’s business operations and strategic planning have been aligned with the local government’s economic and social development policies. PCPZ is an important area promoting cross-strait cooperation, while Pingtan CDG is the most important infrastructure construction and city operation entity in PCPZ. The company is responsible for developing and operating an array of projects, such as Pingtan-Taiwan Innovation Park, Taiwan Town and Sports Center. These projects provide spaces for business, living and cultural exchange in Pingtan.

Ongoing Government Support: PCPZ MC injected assets amounting to RMB9,434 million between 2019 and 2022 into the Pingtan CDG to enhance its equity base. Injected assets included cash, equities of LIDCs and SOEs in PCPZ, land use rights and properties, as well as agent projects (some are not-for-pro completed by Pingtan CDG. Between 2019 and end-September 2022, Pingtan CDG also received financial subsidies of RMB170 million in relation to providing public services and goods from the local government. We expect the company to continue receiving capital injections and financial subsidies in the future.

Economy and Fiscal Condition of PCPZ: PCPZ is a prefecture-level zone directly under the administration of Fujian Province and equipped with special and favorable supporting policies to promote cross-strait cooperation. PCPZ's GDP growth rate had moderated to 5.4% in 2020 and 5.8% in 2021 from 8.1% in 2019. PCPZ is developing its secondary sector by cultivating computer, communication and other electronics manufacturing industry.

PCPZ MC's budgetary revenue and fiscal self-sufficiency rate were relatively low. Its government fund income dropped dramatically to RMB1.2 billion in 2020 from RMB7.6 billion in 2019, then rebounded to RMB2.3 billion in 2021 due to the volatile land use right transfer income amid challenging property market conditions. Nevertheless, as a Comprehensive Pilot Zone with strategic importance to Fujian Province and China, PCPZ receives stable transfer payments from higher-level governments.

Pingtan CDG's Financial Position: Pingtan CDG's total assets increased by 16.5% to RMB74.0 billion at end-September 2022 from RMB63.5 billion at end-2019, mainly due to the company's active participation in infrastructure projects in PCPZ. Over the same period, the company's total debt rose by 26.9% to RMB9.3 billion from RMB7.3 billion. Given the company relied on both project funds provided by the local government and borrowing to support the expansion of its assets, the company's financial leverage, as measured by total debt/capitalization, remained at a manageable level of 21.3% at end-September 2022.

At end-September 2022, the company's assets mainly comprised other non-current assets and inventory, representing 51.1% and 30.4% of the company's total assets, respectively. The former mainly composed of agent construction projects, self-management projects and PPP projects, etc. The growth of other non-current assets was consistent with the acceleration of the urban infrastructure development strategy in PCPZ. The latter mainly consists of land use rights injected by the local governments and acquired through open bidding. These lands were planned for developing commercial and residential properties, but their market value and actual development plan are subject to the property market conditions.

The liquidity of Pingtan CDG was moderately weak yet manageable. At end-September 2022, Pingtan CDG had a cash balance of c. RMB1.6 billion (including restricted cash of RMB33 million), compared with its debt due within one year of c. RMB1.8 billion. Nevertheless, Pingtan CDG has access to various financing channels, including bank loans, onshore and offshore bond issuances and non-traditional financings (such as trust loans and financial leasing), to support its debt repayment and business operations.

Rating Sensitivities

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

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

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 Pingtan CDG'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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