

Lianhe Ratings Global Limited has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shaanxi Xixian New Area Fengxi Development Group Co., Ltd.

HONG KONG, 17 February 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shaanxi Xixian New Area Fengxi Development Group Co., Ltd. (“SXFD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the de facto local government of Fengxi New City of Xixian New Area of Shaanxi Province (“Fengxi”), the Management Committee of Fengxi (“Fengxi MC”), would provide strong support to SXFD if needed, in light of its direct majority ownership of SXFD, SXFD’s strategic importance as the important state-owned entity for infrastructure development, shantytown renovation, land development, as well as resettlement house construction in Fengxi, and the linkage between the Fengxi MC and SXFD, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Fengxi MC may face significant negative impact on its reputation, business and financing activities if SXFD encounters any operational and financial difficulties.

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

Key Rating Rationales

Fengxi MC’s Ownership and Supervision: The Fengxi MC directly holds the majority ownership of SXFD, it is the ultimate controller of the company. The Fengxi MC has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Fengxi MC has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Fengxi and Strategic Alignment: SXFD, as an important LIDC in Fengxi, is mainly responsible for infrastructure development, land consolidation and shantytown renovation, etc., with franchise advantages. In addition, SXFD is also responsible for projects related to industrial parks in the region, including the construction of the industrial parks, the subsequent investment attraction works and operation. SXFD is the main entity for the infrastructure development, especially the core entity for shantytown renovation and resettlement housing construction in Fengxi. It plays an important role in promoting the economic and social development of Fengxi. SXFD’s business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: SXFD received operational and financial support from the Fengxi MC. SXFD had received a total subsidy amount of c. RMB1.1 billion from 2019 to 2021, mainly including financial interest discount and special funds for shantytown renovation. The Fengxi MC will repurchase some infrastructure and shantytown renovation projects upon completion and provide policy supports to SXFD to ensure its business operation. Given the franchise advantage in shantytown renovation projects construction and land consolidation in Fengxi, SXFD has advantages to obtain land resources and major projects. We believe SXFD is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

SXFD's Financial Matrix and Liquidity Position: SXFD's total assets showed a continuous growth trend in the past years and reached RMB29.1 billion at end-September 2022, mainly due to the increase in contract assets caused by the promotion of infrastructure development and shantytown-related projects. SXFD's financial leverage (total liabilities to total assets) was 72.7% and its adjusted debt increased to c. RMB16.6 billion at end-September 2022. The liquidity of SXFD was sufficient. SXFD had a cash balance and unused credit facilities of c. RMB2.1 billion and RMB4 billion at end-September 2022, respectively, compared with its debt due within one year of c. RMB3.4 billion. Besides, SXFD has access to various financing channels, including bank loans, bond issuance and non-traditional financing (e.g. trust loans), to support its debt repayment and business operations.

Economy and Fiscal Strength of Fengxi: Fengxi, as one of the five major new cities in Xixian New Area of Shaanxi Province ("Xixian"), which is a national new area located between Xi'an and Xianyang in Shaanxi Province. Fengxi's economy maintained steady growth, with GDP reaching RMB13.4 billion and year-on-year growth of 9.9% in 2021. The GDP was mainly fueled by the secondary and tertiary industries, which accounted for 36.5% and 53.7% of the aggregate GDP in 2021.

The aggregate fiscal revenue of Fengxi was mainly derived from the budgetary revenue and government fund income. Fengxi's budgetary revenue grew moderately and increased to RMB2.1 billion in 2021, where its tax revenue accounted for more than 84% of its budgetary revenue in the past three years. Besides, the government fund income was relatively large in volume compared to its budgetary revenue, which increased by 75.2% to RMB11.3 billion in 2021, mainly due to the increase in revenue from the transfer of state-owned land use rights. Its budget deficit improved in the past three years, which was -105.7%, -56.2% and -39.3% in 2019, 2020 and 2021, respectively, due to the strong growth of budgetary revenue. The debt ratio (i.e. total government debt divided by aggregate revenue) of Fengxi was c. 67% at end-2021, while the total outstanding amount of government debt increased to c. RMB9.4 billion at end-2021 from c. RMB6.8 billion at end-2019.

Rating Sensitivities

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

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

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 SXFD'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

Toni Ho

Director

(852) 3462 9578

toni.ho@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

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