

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weihai Wendeng District Bluesea Investment and Development Co., Ltd.**

HONG KONG, 4 April 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Weihai Wendeng District Bluesea Investment and Development Co., Ltd. (“WWBID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Wendeng District, Weihai City (“Wendeng government”) would provide strong support to WWBID if needed, in light of its full ownership of WWBID, WWBID’s strategic importance as the major local investment and development company (“LIDC”) that is responsible for infrastructure construction and affordable housing construction in Wendeng District, Weihai City (“Wendeng”), and the linkage between the Wendeng government and WWBID, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Wendeng government may face significant negative impact on its reputation and financing activities if WWBID encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Wendeng Government’s Ownership and Supervision:** The Wendeng government holds full ownership of WWBID through the Weihai Wendeng District State-owned Assets Service Center (“Wendeng SASC”), and is the ultimate shareholder of the company. The Wendeng government 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 Wendeng government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Wendeng and Strategic Alignment:** WWBID is an important LIDC in Wendeng that is primarily responsible for the infrastructure construction and affordable housing construction within the region with strong franchised advantages. The company has been tasked to implement government policies relating to shanty town reconstruction and urban districts construction and has undertaken a number of key project construction projects within Wendeng. As the key entity for infrastructure and affordable housing construction in Wendeng, WWBID plays an important role in promoting the economic and social development

of the region. Its business operation and development have been aligned with the government's development plans.

**Ongoing Government Support:** WWBID received operational and financial support from the government. WWBID had received a total subsidy amount of c. RMB3.6 billion from 2019 to the first nine months of 2022, mainly including daily operating subsidies. The Wendeng government, through the Wendeng SASC, continued to inject cash, equity and other assets into WWBID to expand its asset size and enhance its financial strength. The Wendeng government will repurchase some infrastructure and affordable housing construction projects and provide policy supports to WWBID to ensure its business operation. Given the franchise advantage in infrastructure and affordable housing construction in Wendeng, WWBID has advantages to obtain land resources and major projects. We believe WWBID is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**WWBID's Financial and Liquidity Position:** WWBID's total assets showed a continuous growth trend in 2019-2021, and reached RMB55.2 billion at end-September 2022. The increase of WWBID's total assets was mainly due to the increase in inventories as a result of increasing infrastructure construction and affordable housing construction projects. Although WWBID had considerable current assets, its assets were illiquid, primarily due to the significant proportion of costs associated with construction projects and the receivables. WWBID's financial leverage (total liabilities to total assets) was 45.1% and its adjusted debt increased to c. RMB21.5 billion at end-September 2022. The liquidity of WWBID was tight. WWBID had an unrestricted cash balance and unused credit facilities of c. RMB0.2 billion and RMB1.2 billion at end-September 2022, respectively, compared with its debt due within one year of c. RMB6.9 billion. Having said that, WWBID has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Wendeng:** Wendeng is a district of Weihai City ("Weihai") of Shandong Province, and is located in the central of Weihai. Wendeng realized a GDP of RMB50.9 billion in 2022, representing a growth rate of 1.5%.

The aggregate fiscal revenue of the Wendeng government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Wendeng government was volatile and dropped by 13.7% to c. RMB4 billion in 2022. At the same time, the government-managed fund income was volatile and dropped by 18.1% in 2022. The Wendeng government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was high and the outstanding government debt increased to RMB20.3 billion at end-2022.

### **Rating Sensitivities**

We would consider downgrading WWBID's rating if (1) there is perceived weakening in support from the Wendeng government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Wendeng

government's ownership of WWBID, or (3) there is a downgrade in our internal credit assessment on the Wendeng government.

We would consider upgrading WWBID's rating if (1) there is strengthened support from the Wendeng government, or (2) there is an upgrade in our internal credit assessment on the Wendeng 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 WWBID'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](http://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](mailto:toni.ho@lhratingsglobal.com)

Committee Chairperson

Ben Yau

Senior Director

(852) 3462 9586

[ben.yau@lhratingsglobal.com](mailto:ben.yau@lhratingsglobal.com)

Business Development Contact

Joyce Chi

Managing Director

(852) 3462 9569

[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

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