

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Changsha Tianxin State Property Group Co., Ltd.

HONG KONG, 25 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Changsha Tianxin State Property Group Co., Ltd. (“CTSPG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Tianxin District of Changsha City (“Tianxin government”) would provide strong support to CTSPG if needed, in light of its indirect full ownership of CTSPG, CTSPG’s strategic importance as an important local investment and development company (“LIDC”) responsible for land consolidation and state-owned assets operation in Tianxin District (“Tianxin”) of Changsha City (“Changsha”), and the linkage between the Tianxin government and CTSPG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support, etc. In addition, the Tianxin government may face significant negative impact on its reputation and financing activities if CTSPG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Tianxin government indirectly holds 100% ownership of CTSPG through Changsha Tianxin State-owned Assets Development Group Co., Ltd. (“TSADG”), an important land development and consolidation and state-owned asset management entity wholly owned by the Tianxin government. The Tianxin government is the ultimate controller of CTSPG. The local government has strong supervision over the company, including appointment and supervision of the senior management, decision on its strategic development and supervision of its major investment plan and funding decisions, etc. In addition, the Tianxin government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: CTSPG, as an important land consolidation and state-owned assets operation LIDC in Tianxin, is primarily responsible for the comprehensive operation of state-owned operating assets, urban renewal, land consolidation, trade, property operation of innovation park, human resource services, and other businesses within Tianxin. It has strong competitive advantage in the region. CTSPG provides some public goods and services which are vital to the society and economy of Tianxin, and it plays an important role in the economic development and infrastructure construction of the region. Its

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

Ongoing Government Support: CTSPG continued to receive financial subsidies, mainly including operating subsidies from the local government to maintain its business operation. CTSPG received a total subsidy amount of c. RMB0.47 billion from 2020 to end-2022, respectively. Meanwhile, CTSPG received multiple assets and capital injection in the form of capital, equity, land, operational assets and other assets to expand its asset size, which reached a total amount of c. RMB12.2 billion in the same period. Considering the company's function and strategic importance in Tianxin, we believe CTSPG is likely going to receive government support in the form of operational and/or financial subsidies in the future.

Economy and Fiscal Condition of Tianxin: Tianxin is a municipal district of Changsha City, Hunan Province, and is located in the south of central urban areas of Changsha, and also in the geometric center of the urban agglomeration of Changsha, Zhuzhou and Xiangtan. Tianxin's economic remained growth but slightly slowed down in 2022. Its GDP reached c. RMB130.2 billion in 2022, representing a year-on-year growth rate of 4.9%. Tianxin's GDP amount was ranked 7th out of 9 districts and counties of Changsha in 2022. The economic growth of Tianxin was mainly fueled by the secondary and tertiary industries, accounting for 31.3% and 68.6% of GDP in 2022, respectively. The budgetary revenue of the Tianxin government maintained a steady growth in the past three years, reaching c. RMB7.0 billion with a year-on-year increase of 4.9% in 2022. The tax revenue accounted for 66-70% of the budgetary revenue in 2020-2022. Tianxin recorded a budget deficit of -10.5% in 2022. On the other hand, government fund income of Tianxin had remained negative since 2021, mainly due to the payment of land use fees for new construction land.

The outstanding debt of the Tianxin government continued to grow in the past few years and reached c. RMB5.7 billion at end-2022, including RMB3.3 billion general obligations and RMB2.4 billion special debt. The debt ratio (total outstanding debt/ aggregate fiscal revenue) climbed from 46.1% in 2020 to 58.5% in 2022, mainly due to the increase in special debt.

CTSPG's Financial and Liquidity Position: CTSPG's total assets grew rapidly in the past three years. At end-2022, CTSPG's assets were mainly composed of land, receivables and investment properties. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, thus, the company's overall asset liquidity was weak. The financial leverage ratio (total liabilities/total assets) of CTSPG was at a moderately low level of c. 25%-38% between 2020 and 2022. The total adjusted debt of CTSPG increased to c. RMB4.4 billion at end-2022. The liquidity risk of CTSPG was moderate. At end-2022, CTSPG had unrestricted cash balance of c. RMB746.3 million and unused credit facilities of c. RMB1,416 million, compared with its debt due within one year of c. RMB1.83 billion at the same time. Besides, CTSPG has access to various financing channels, including bank loans and bond issuance and other financing channels such as finance lease to support its debt repayments and business operations.

Rating Sensitivities

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

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