

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangyou Hongfei Investment (Group) Co., Ltd.

HONG KONG, 5 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Jiangyou Hongfei Investment (Group) Co., Ltd. (“JHIG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Jiangyou People’s Government (“the Jiangyou government”) would provide very strong support to JHIG if needed, in light of its majority ownership of JHIG, JHIG’s strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction, industrial development and public utility operation in Jiangyou and the linkage between the Jiangyou government and JHIG, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Jiangyou government may face significant negative impact on its reputation and financing activities if JHIG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Jiangyou government holds 67% shares of JHIG through Finance Bureau of Jiangyou (Jiangyou State-owned Assets Supervision and Administration Office) (“Jiangyou SASAO”); the higher government, Mianyang Municipal People’s Government (“the Mianyang government”) owns the rest of shares indirectly.

The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: JHIG is the most important LIDC responsible for infrastructure construction, industrial development and public utility operation in Jiangyou. It undertakes major land consolidation, road construction, resettlement housing development, environment improvement and other infrastructure-related projects. It also provides critical public services in Jiangyou, including gas supply, water supply, public transportation and waste garbage disposal.

JHIG's strategic development plan has been aligned with the local government's economic and social policies. JHIG and Mianyang Investment Holding (Group) Co., Ltd., an important prefecture-level LIDC owned by the Mianyang government, jointly founded Mianyang Miantai Industrial Co., Ltd. ("MMIC") in 2021, aiming to enhance the coordination between prefecture-level and county-level LIDCs, and to support industrial development in Jiangyou. MMIC has invested RMB1.5 billion into a flagship production plant of lithium iron phosphate cathode material in Jiangyou with a 33.33% stake. It is expected to be the first project with an annual production value exceeding RMB10 billion in Jiangyou after being put into operation and to drive the development of the related industry chain.

Ongoing Government Support: The company received ongoing operational subsidies from the Jiangyou government in relation to providing public services, amounting to RMB1,532 million between 2019 and the first nine months of 2022. In addition, the Jiangyou government injected cash capital of RMB383 million into JHIG in 2020, enlarging its paid-in capital to RMB500 million from RMB117 million. The local government also injected assets such as equity of other LIDC, state-owned properties and sewage pipe network, amounting to RMB1,625 million, into JHIG between 2019 and 2021. We expect the company to continue receiving government support in the future, considering its strategic importance in Jiangyou.

Economy and Fiscal Condition of Jiangyou: Jiangyou is an important industrial base in Sichuan Province, specializing in producing special steel and machinery. As the hometown of Li Bai, a renowned Chinese poet who lived during the Tang Dynasty, Jiangyou has been leveraging this advantage to develop its tourism industry in recent years. Jiangyou's economic development has experienced fluctuation over the past three years due to the impact of Covid, with GDP growth rates of 4.1%, 8.6% and 3.9% in 2020, 2021 and 2022, respectively.

The Jiangyou government's budgetary revenue increased significantly to RMB3.0 billion in 2022 from RMB2.3 billion in 2020. However, the tax revenue's contribution stayed at a low level of 42-55% over the same period. Its fiscal self-sufficiency was improving but remained weak, with budget deficits of -95.4%, -88.9% and -78.1% in 2020, 2021 and 2022, respectively. Therefore, the Jiangyou government highly relied on transfer payments from higher government and government fund income. Yet the latter, mainly generated by land sales, dropped to c. RMB3.7 billion in 2022 from RMB8.4 billion in 2020 and RMB4.3 billion in 2021, owing to the weak property market.

JHIG's Financial and Liquidity Position: JHIG's asset size grew steadily to RMB30.9 billion at end-September 2022 from RMB21.5 billion at end-2019. Its total debt increased by 26.7% to RMB14.1 billion from RMB11.1 billion over the same period. As the company received multiple capital and asset injections, its financial leverage was largely stable in the past three years.

The liquidity of JHIG was very tight. At end-September 2022, JHIG had a cash balance of RMB281 million (including restricted cash of RMB68 million) compared with its debts due within one year of RMB6.4 billion. JHIG only had unused bank credit lines of RMB3.2 billion to support its debt repayments and business operations. Therefore, the company has to

successfully roll over its short-term bank borrowings (end-September 2022: RMB2.9 billion) and obtain additional financing sources or government support to maintain its liquidity.

Rating Sensitivities

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

We would consider upgrading JHIG's rating if there is an upgrade in our internal credit assessment on the Jiangyou 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 JHIG'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
Roy Luo
Senior Associate
(852) 3462 9582
roy.luo@lhratingsglobal.com

Committee Chairperson
Toni Ho
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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