

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

HONG KONG, 10 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Nanyang Investment Group Co., Ltd. (“NYIC” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Nanyang Municipal People’s Government (“the Nanyang government”) would provide strong support to NYIC if needed, in light of its 100% ownership of NYIC, NYIC’s strategic position as the most important local investment and development company (“LIDC”) responsible for infrastructure investment and project construction in Nanyang, and the strong linkage between the Nanyang government and NYIC, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Nanyang government may face significant negative impact on its reputation and financing activities should NYIC encounter any operational or financial difficulties.

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

Key Rating Rationales

Nanyang Government’s Full Ownership: The Nanyang government holds 100% ownership of NYIC via Finance Bureau of Nanyang. The Nanyang government also has strong control and supervision over NYIC, including control of the board of directors, senior management appointments, major strategic, investment and financing planning. In addition, the Nanyang 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: NYIC’s strategic planning and development have been aligned with the local government’s economic and social policies. NYIC is the most important LIDC responsible for infrastructure investment and project construction in Nanyang. The project scope mainly includes city infrastructures, public facilities, shantytown renovations and river control. NYIC is also responsible for the operation of concession projects granted by the government, including public utilities such as sewage treatment. The company’s operations promote Nanyang’s urban development and support local economic growth.

Ongoing Government Support: NYIC received ongoing support from the local government, including asset injection and financial subsidies. In 2021, NYIC received 51% of shares Tongbai Pangu Investment Holding Co., Ltd. (“TPI”), a county-level LIDC, amounting to RMB2.8 billion and enlarging the company’s capital reserve to RMB12.4 billion at end-2021 from RMB9.6 billion at end-2020.

NYIC also received financial subsidies of RMB1,393 million between 2019 and the first nine months of 2022, mainly for supporting projects related to infrastructure or special projects. We believe NYIC is likely to continue to receive timely government support in the future.

NYIC's Financial and Liquidity Position: NYIC's total debt increased by 40.2% to RMB21.2 billion at end-2021, up from RMB15.1 billion at end-2020. Yet NYIC's financial leverage, as measured by debt/capitalization, decreased slightly to 53.6% at end-2021 from 54.8% at end-2020 due to the enhanced equity base resulting from the injection of TPI's equity. Its financial leverage, excluding TPI, was 62.0% at end-2021. NYIC continued borrowing in the first nine months of 2022. Its total debt increased by 8.6% to RMB23.0 billion and the financial leverage increased to 55.6%.

Yet NYIC's short-term debt was manageable. At end-September 2022, NYIC had short-term debt of RMB4.8 billion, accounting for 20.9% of the company's total borrowings. At the same time, NYIC had cash of RMB 5.2 billion (including restricted cash of RMB21 million), covering 108.3% of its short-term maturity. NYIC also has access to multiple financing channels, including bank loans, bond issuances and other non-traditional financing channels to support its debt repayment and business operation. The company had unused bank lines of RMB23.8 billion at end-September 2022.

Economic and Fiscal of Nanyang: Nanyang's aggregate GDP, amounting to RMB455.5 billion in 2022, was ranked 3rd among 18 jurisdictions in Henan Province. It was mainly fueled by secondary and tertiary industries, accounting for 32.0% and 51.9 % of Nanyang's GDP in 2022, respectively, while the primary sector still took a significant position in Nanyang's economy. Its GDP per capita was relatively low, which was RMB44,894, and was ranked 13th in Henan province, equivalent to 76% of the GDP per capita of Henan and 55% of that of China in 2021. Nanyang's economic growth slowed to 4.8% in 2022 from 9.0% in 2021 due to the impact of Covid. Yet its fixed asset investment growth rate stayed at 13.2% (2021:13.1%) as the government boosted investment in infrastructures and the industrial sector to support the economy.

The Nanyang government's budgetary revenue grew by 14.3% to RMB25.7 billion in 2022 from RMB22.5 billion in 2021. Tax revenue's contribution stayed at c. 70% level between 2021 and 2022. Over the same period, the Nanyang government's budgetary deficit improved but remained moderately high, which was -203.3% in 2021, narrowing from -268.3% in 2020. However, its government fund income, mainly generated by land sales, dropped significantly to RMB16.9 billion in 2022 from RMB24.2 billion in 2021, owing to weak property market conditions. At the same time, the transfer payments from higher governments also shrank to RMB25.3 billion from RMB50.6 billion. As a result, the Nanyang government's aggregate revenue decreased to RMB68.9 billion from RMB97.9 billion. The government debt ratio, as measured by total government debt/aggregate revenue, increased to 156.2 % at end-2022 from 85.4% at end-2021.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, 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 NYIC'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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