

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Xinyi High-tech Construction Development Group Co., Ltd.

HONG KONG, 23 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Xinyi High-tech Construction Development Group Co., Ltd. (“XHCD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Xinyi People’s Government (“the Xinyi government”) would provide strong support to XHCD if needed, in light of its full ownership of XHCD, XHCD’s strategic importance as an important local investment and development company (“LIDC”) responsible for land development, infrastructure construction and urban village renovation, as well as industrial parks development and operation in Xiyi High-tech Industrial Development Zone (“High-tech Zone”), and the linkage between the Xinyi government and XHCD, 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 Xinyi government may face significant negative impact on its reputation and financing activities if XHCD encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Xinyi government holds 100% shares of XHCD directly. The local government also 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: XHCD’s strategic development plan has been aligned with the local government’s economic and social policies. It is the key LIDC responsible for project construction, including land development, infrastructure construction and urban village renovation, in High-tech Zone, a provincial-level development zone focusing on the electronic information, machinery manufacturing, biopharmaceuticals, light textile, and logistics processing industry. The company also develops and operates industrial parks in High-tech Zone to promote Xinyi’s industrial and economic development.

Ongoing Government Support: XHCD received ongoing operational subsidies from the Xinyi government in relation to providing public services between 2020 and 2022. In addition, XHCD received multiple capital injections, including cash, completed projects, lands, etc., over the same period. Considering its strategic importance in Xinyi, we expect the company to continue receiving government support in the future.

Economy and Fiscal Condition of Xinyi: Xinyi's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 10.1% and 4.7% in 2020, 2021 and 2022, respectively. It realized a GDP of RMB82.6 billion in 2022 and was ranked 4th among ten districts and counties under the administration of Xuzhou. In recent years, Xinyi's economic development focused on manufacturing, biological, pharmaceutical and chemical industries. Its economic growth was mainly fueled by the secondary and tertiary sectors, which accounted for 39.0% and 49.3% of GDP in 2022, respectively.

The Xinyi government's budgetary revenue increased to RMB4.6 billion in 2022 from RMB3.8 billion in 2020. However, the tax revenue's contribution decreased to 70.7% from 85.9% over the same period. Xinyi's budgetary deficit was improving but remained high, with deficit rates of -157.3%, -135.8% and -126.0% in 2020, 2021 and 2022, respectively. Xinyi's government fund income, mainly generated by land sales, increased to c. RMB6.3 billion in 2022 from RMB5.1 billion in 2021. Plus, the transfer payment from higher governments was largely stable. Therefore, the Xinyi government's aggregate revenue reached RMB16 billion in 2022, up from RMB14.1 billion in 2021.

Nevertheless, the outstanding debt of the Xinyi government continued to grow in 2022. At end-2022, the Xinyi government's outstanding debt was RMB17.0 billion (end-2021: RMB13.5 billion). Given that the Xinyi government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 106.5% at end-2022 from 95.7% at end-2021.

XHCD's Financial and Liquidity Position: XHCD's asset size grew significantly to RMB40.1 billion at end-2022 from RMB22.5 billion at end-2020, mainly due to the multiple asset injections from the local government. The company's debt was largely stable in the past three years, which was RMB6.6 billion, 7.6 and 7.7 billion in 2020, 2021 and 2022, respectively. Therefore, XHCD's financial leverage, as measured by total debt/capitalization, decreased to 19.9% in 2022, a relatively healthy level, from 29.3% in 2020.

XHCD's liquidity was very tight. At end-2022, XHCD held a cash balance of RMB543 million (including restricted cash of RMB511 million), while its debts due within one year amounted to RMB3.2 billion. The company had only RMB1.1 billion in unused bank credit lines to support its debt repayments and business operations. Consequently, XHCD needs to successfully roll over its short-term bank borrowings and secure additional financing sources or government support to maintain its liquidity.

Rating Sensitivities

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

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