Nanyang Investment Group Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 May 2022

Key Figures of Nanyang and NYIC (RMB billion)

Nanyang	**2021**	**2022**
GDP	434.2	455.5
GDP growth rate (%)	9.0	4.8
Budgetary revenue	22.5	25.7
Government fund	24.2	16.9
Transfer payment	50.6	25.3
Budgetary expenditure	74.5	77.7
NYIC	**2021**	**2022.9**
Asset	47.8	50.4
Equity	18.4	18.4
Revenue	2.8	2.1

Source: Nanyang Municipal Government, Finance Bureau of Nanyang, NYIC and Lianhe Global's calculations

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Applicable Criteria
China Local Investment and Development Companies Criteria (5 December 2022)

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB+' global scale Long-term Issuer Credit Rating with Stable Outlook to Nanyang Investment Group Co., Ltd. ("NYIC" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that 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.

Rating Rationale

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% shares of 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% from 54.8% over the same period 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 its 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, equivalenting 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 -202.3% in 2021, narrowing from -232.% 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.

Operating Environment

Economy Condition of Nanyang

Nanyang, formerly known as Wan, is a sub-central city of Henan Province. It is an important transportation hub in the central China region and a regional central city in the border area between Henan, Hubei and Shaanxi. Nanyang administers over two districts, ten counties and one county-level city, with a total land area of 26,509. Nanyang experienced a significant population outflow in the past decade. According to the sixth and seventh population censuses, the total population has decreased by 5.4% to 9.71 million at end-October 2020 from 10.26 million at end-October 2010. Its urbanization rate increased to 50.6% from 32.5% over the same period, yet it still is at a moderately low level.

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Nanyang's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	392.6	434.2	455.5
-Primary industry (%)	16.6	16.8	16.1
-Secondary industry (%)	32.1	31.6	32.0
-Tertiary industry (%)	51.3	51.6	51.9
GDP growth rate (%)	2.2	9.0	4.8
Fixed asset investment	485.1	548.6	621.0
Fixed asset investment growth rate (%)	5.5	13.1	13.2
Population (million)	9.71	9.63	9.63*

Source: Public Information and Lianhe Global's calculations
**Note：2021's data*

Fiscal Conditions of Nanyang

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Nanyang's Fiscal Conditions (RMB billion)	**2020**	**2021**	**2022**
Budgetary revenue	20.2	22.5	25.7
Budgetary revenue growth rate (%)	3.1	13.4	14.3
Tax revenue	14.0	15.6	18.0
Tax revenue (% of budgetary revenue)	69.3	69.3	70.0
Government fund income	23.0	24.2	16.9
Transfer payment	57.7	50.6	25.3
Aggregate revenue	101.0	97.9	68.9
Budgetary expenditure	74.5	69.2	77.7
Budget deficit[1] (%)	-268.3	-207.0	-202.3

*[1] Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%*
Source: Finance Bureau of Nanyang and Lianhe Global's calculations

Ownership Structure and Profile

Full State Ownership with Strong Government Supervision

NYIC is a wholly state-owned company established by the Nanyang government in 2009 with initial registered capital of RMB2 billion. The Nanyang government is NYIC's ultimate controller and authorizes Finance Bureau of Nanyang to serve as the shareholder and exercise supervision and management functions.

Strategic Importance and Government Linkage

Strategic Importance of NYIC to Nanyang

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.

Strong Linkage with the Nanyang Government

NYIC's linkage with the local government is strong as it is wholly owned by the Nanyang government through Finance Bureau of Nanyang. The Nanyang government has strong control and supervision over NYIC, including control of the board of directors, senior management appointments, and 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.

Ongoing Government Support

NYIC received ongoing support from the local government, including asset injection and financial subsidies. In 2021, NYIC received 51% shares TPI, amounting to RMB2.8 billion, enlarging the company's capital reserve to RMB12.4 billion at end-2021 from RMB9.6 billion at end-2020.

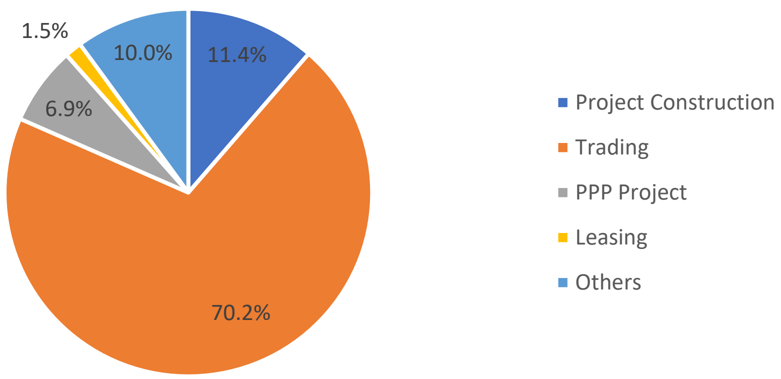
NYIC also received financial subsidies of RMB309 million, RMB291 million, RMB421 million and RMB372 million in 2019, 2020, 2021 and the first nine months of 2022, respectively, mainly for supporting projects related to public infrastructure or special projects. We believe NYIC is likely to continue to receive timely government support in the future.

Business Profile

The most LIDC responsible for infrastructure investment and project construction in Nanyang

NYIC is the most important LIDC responsible for infrastructure investment and project construction in Nanyang. The company also diversified into trading, leasing and other businesses. NYIC realized revenue of RMB1.2 billion, RMB758 million, RMB2.8 billion and RMB2.1 billion in 2019, 2020, 2021 and the first nine months of 2022, respectively.

Revenue Breakdown
(Total Revenue: RMB2.1 billion for the first nine months of 2022)



Source: The company and Lianhe Global's calculations

<u>**Project Constructions and Public-Private Partnership ("PPP") Projects**</u>

NYIC engaged in project construction activity through signing agreements of agent construction, build-transfer ("BT") and the government's purchasing of public services with the Nanyang government, as well as participating in PPP projects in Nanyang. The project scope mainly includes city infrastructures, public facilities, shantytown renovations, forest reserve and river control. Generally, NYIC's project constructions sector reveals the characteristics of low profit margin, high investment, as well as long construction and cash collection period. Yet the government usually provides some project funds to support NYIC's project construction activities, easing the company's financial burden to some extent.

Despite the decreasing share in total revenue, project constructions and PPP projects remain the most important businesses of NYIC in terms of investment scale. At end-March 2022, NYIC had one agent construction project, six government's purchasing of public services projects and three PPP projects under construction, requiring c. RMB2.3 billion, RMB5.2 billion and RMB12.1 billion to be invested in the next two to three years.

Commodity Trading

NYIC engages in commodity trading activities, mainly the trading of electrolytic copper, through a non-wholly owned subsidiary Shanghai Wanjun International Internal Trade Co., Ltd ("Wanjun"), which was established in November 2020 and headquartered in Shanghai. NYIC owns 51% shares of Wanjun, and the rest 49% shares are held by Shanghai Junhe, a private-owned group focusing on commodity trading. Shanghai Junhe invests in dozens of trading companies with other LIDCs across the country.

Considering the high market risk due to the highly volatile prices of electrolytic copper and the thin gross margin (2%-3%), and high counterparty risks as its suppliers and buyers were mainly other commodity traders (Wanjun also provided 30 days credit period to buyers), NYIC plans to gradually exit the commodity trading of Wanjun.

Others

Other businesses of NYIC mainly include sales of sand and gravel, photovoltaic power, project services and maintenance, sewage treatments, as well as property leasing and property management.

Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality (RMB million)	2019	2020	2021	Sept. 2022
Total Asset	30,263	34,124	47,791	50,428
Equity	12,267	12,485	18,384	18,368
Debt	12,948	15,118	21,201	23,034
Debt / (Debt + Equity) (%)	51.4%	54.8%	53.6%	55.6%
LT Debt	10,952	11,804	16,278	18,218
LT Debt / (LT Debt + Equity) (%)	47.2%	48.6%	47.0%	49.8%

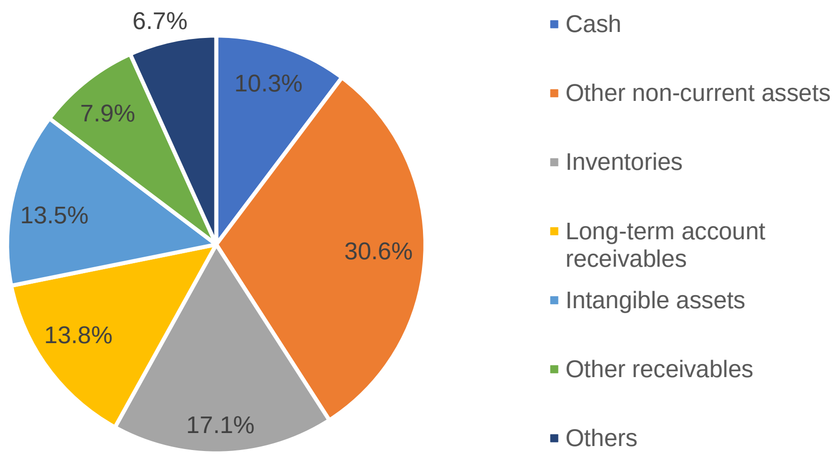
Source: NYIC and Lianhe Global's calculations

NYIC's total assets increased by 40.1% to RMB47.8 billion at end-2021 from RMB34.1 billion at end-2020. This was mainly because Nanyang's Tongbai county government transferred 51% of the shares of TPI to NYIC free of charge. NYIC consolidated TPI's balance sheet, which had total assets of RMB 7.1 billion and equity of RMB5.8 billion at end-2021. After the ownership transfer, the Tongbai county government held the remaining 49% of TPI shares, and therefore lifted

NYIC's non-controlling interests to RMB3.2 billion at end-2021 from RMB168 million at end-2020.

NYIC mainly relied on borrowings to fund its project construction activities. The 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 decreased slightly to 53.6% from 54.8% over the same period 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 its financial leverage increased to 55.6%.

Asset Breakdown
(Total asset: RMB50.4 billion at end-September 2022)



Source: The company and Lianhe Global's calculations

NYIC's asset liquidity was moderately weak. At end-September 2022, NYIC had other non-current assets that amounted to RMB15.5 billion, representing 30.6% of the company's total asset. These assets mainly included non-profit nature forest assets, investments in PPP and railroad projects. NYIC also booked RMB6.8 billion (13.5%) on intangible assets at end-September 2022 for the concession of operating sewage treatment, car parks, as well as sand and gravel businesses in Nanyang. In the first nine months of 2022, NYIC recorded revenue of c. RMB276 million from the above operations. We believe these assets are hard to be monetized in a short time if needed.

NYIC had inventories of RMB8.6 billion at end-September 2022, accounting for 17.1% of the company's total asset, mainly including land use rights injected by the government and acquired through open bids, as well as construction costs generated by the company's project construction activities. NYIC's project construction activities also generated sizeable long-term receivables, amounting to RMB7.0 billion and representing 13.8% of the company's total asset at-end September 2022. NYIC usually takes more than three years to collect its long-term receivables. For projects under BT and the government's purchasing of public services agreements, the cash collection period could be as long as ten years. In addition, NYIC had other receivables of RMB4.0 billion, mainly due from different government departments of Nanyang.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	2,172	1,392	4,345	3,061
Cash Outflows from Operation	2,970	2,610	4,804	2,935
Net CF from Operation	-798	-1,218	-460	126
Cash Inflows from Investment	1,138	426	806	156
Cash Outflows from Investment	4,447	3,971	3,180	2,612
Net CF from Investment	-3,309	-3,545	-2,375	-2,456
Cash Inflows from Financing	7,507	8,253	9,755	3,610
Cash Outflows from Financing	1,751	4,290	5,524	1,368
Net CF from Financing	5,756	3,962	4,231	2,241
Net Increase in Cash and cash equivalent	1,649	-801	1,397	-89

Source: NYIC and Lianhe Global's calculations

Debt Servicing Capability

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.

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