

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Feicheng City Assets Management Group Co., Ltd.**

HONG KONG, 19 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Feicheng City Assets Management Group Co., Ltd. (“FCAMG” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Feicheng government indirectly holds the full 100% ownership of FCAMG via the State-owned Assets Operation Centre of Feicheng (“Feicheng SAOC”), and is the actual controller of the company. The Feicheng government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Feicheng government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance and Strategic Alignment:** FCAMG is an important infrastructure construction and water operation entity within the region. FCAMG plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

**Ongoing Government Support:** FCAMG received operational and financial support from the government. FCAMG received a total subsidy amount of c. RMB781.1 million from 2020 to 2022. Given the franchised advantages in water operation in Feicheng, we believe FCAMG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**FCAMG's Financial and Liquidity Position:** FCAMG's total assets showed a continuous growth in the past few years, with a growth rate of 18.6% and 16.5% at end-2021 and end-2022, respectively, and reached RMB19.2 billion at end-2022. The increase of FCAMG's total assets in 2022 was largely due to its inventories, which has steadily increased in tandem with the company's infrastructure construction projects. Though FCAMG had large proportion of current assets (79.1% at end-2022), its assets were illiquid, primarily due to the significant proportion of land reserves, costs associated with construction projects and receivables. FCAMG's financial leverage (total liabilities to assets) was 33.1% at end-2022. FCAMG's total adjusted debt increased to c. RMB4.5 billion at end-2022. The liquidity of FCAMG was tight. At end-2022, FCAMG had unrestricted cash balance and unused credit facilities of c. RMB0.25 billion and RMB1.0 billion, respectively, compared with its debt due within one year of c. RMB1.5 billion at the same time. However, FCAMG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Feicheng:** Feicheng is a county-level city of Taian, Shandong Province and is located in the northwest of Taian with a total land area of c.1,277 square kilometers. Feicheng maintained steady economic growth in the recent three years. Its GDP reached c. RMB82.7 billion in 2022, representing a year-on-year growth rate of 5.3%. Feicheng's GDP amount was ranked 1st out of all cities, districts and counties of Taian in 2022. The aggregate fiscal revenue of the Feicheng government was mainly derived from the budgetary revenue and transfer payment. The budgetary revenue of the Feicheng government maintained steady growth in the past three years, and reached RMB4.7 billion in 2022. The tax revenue accounted for 81.8%-86.1% of the budgetary revenue from 2020 to 2022. The debt ratio, as measured by the total government debt/aggregate revenue was lifted to 88.1% in 2022 from 56.0% in 2020, mainly due to the increase in special debt.

### **Rating Sensitivities**

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

We would consider upgrading FCAMG's rating if there is an upgrade in our internal credit assessment on the Feicheng 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 FCAMG'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](http://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

Ben Yau

Senior Director

(852) 3462 9586

[ben.yau@lhratingsglobal.com](mailto:ben.yau@lhratingsglobal.com)

Committee Chairperson

Toni Ho

Director

(852) 3462 9578

[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Business Development Contact

Joyce Chi

Managing Director

(852) 3462 9569

[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.