

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Haiyang Haifa Water 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 Haiyang Haifa Water Group Co., Ltd. (“HHWG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Haiyang City, Yantai City (“Haiyang government”) would provide strong support to HHWG if needed, in light of its full ownership of HHWG, HHWG’s strategic importance as the important local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Haiyang City, Yantai City (“Haiyang”), (“Yantai”), and the linkage between the Haiyang government and HHWG, 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 Haiyang government may face significant negative impact on its reputation and financing activities if HHWG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Haiyang government holds the full ownership of HHWG through Haiyang Finance Bureau. The Haiyang 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 Haiyang 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: HHWG is primarily responsible for infrastructure construction and utilities operation within the region. HHWG 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: HHWG received operational and financial support from the government. HHWG received a total subsidy amount of c. RMB276.9 million from 2020 to 2022, mainly including operating subsidies. We believe HHWG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

HHWG's Financial and Liquidity Position: HHWG's total assets showed a continuous growth in the past few years, with a growth rate of 31.1% and 24.8% at end-2021 and end-2022, respectively, and reached RMB10.9 billion at end-2022. The increase of HHWG's total assets in 2022 was largely due to its construction in progress. HHWG had large proportion of non-current assets (68.7% at end-2022), its overall asset liquidity was weak. HHWG's financial leverage (total liabilities to assets) reached 22.6%, 30.1% and 41.8% at end-2020, end-2021 and end-2022, respectively, representing an upward trend due to the increasing Long-term payable. HHWG's total adjusted debt increased to c. RMB2.8 billion at end-2022. The liquidity of HHWG was tight. At end-2022, HHWG had unrestricted cash balance and unused credit facilities of c. RMB0.15 billion and RMB0.33 billion, respectively, compared with its debt due within one year of c. RMB0.77 billion at the same time. Therefore, the company must successfully roll over its short-term bank borrowings (end-2022: c. RMB0.53 billion) and obtain additional financing sources or government support to maintain its liquidity.

Economy and Fiscal Condition of Haiyang: Haiyang is a county-level city of Yantai City, Shandong Province, and is located in the southern end of Jiaodong Peninsula. Haiyang's economic growth fluctuated in the past three years due to the COVID-19 pandemic, with a year-over-year growth rate of -1.5%, 6.0% and 4.5% in 2020, 2021 and 2022, respectively. Haiyang's GDP reached RMB49.8 billion in 2022, and ranked the 7th among all districts and county-level cities under the administration of Yantai. The Haiyang government's aggregate fiscal revenues are mainly derived from budgetary income and government fund income. The Haiyang government's budgetary revenue decreased to c. RMB3.0 billion in 2022 from c. RMB3.1 billion in 2021. In contrast, its budgetary expenditure increased to RMB4.6 billion in 2022 from RMB4.4 billion in 2021. Therefore, the Haiyang government's budget deficit was enlarged to -52.3% over the same period. The debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 160.6% at end-2022 from 125.4% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

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