

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

HONG KONG, 30 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Pizhou Communications Holding Group Co., Ltd. (“PCHG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Pizhou government holds the full ownership of PCHG through Pizhou Finance Bureau. The Pizhou 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 Pizhou 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: PCHG is primarily responsible for transportation-related facilities construction and operation within the region. PCHG 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: PCHG received operational and financial support from the government. PCHG received a total subsidy amount of c. RMB427 million from 2020 to 2022, mainly including operating subsidies. We believe PCHG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

PCHG's Financial and Liquidity Position: PCHG's total assets showed a continuous growth in the past few years, with a growth rate of 16.4% and 17.1% at end-2021 and end-2022, respectively, and reached RMB14.5 billion at end-2022. The increase of PCHG's total assets in 2022 was largely due to its inventories and other receivables. Although the company's asset structure was dominated by current assets, the inventories monetization was heavily influenced by the progress of government settlements, the use of some assets was restricted and some funds were occupied by accounts receivable. Therefore, the company's overall asset liquidity was weak. PCHG's financial leverage (total liabilities to assets) reached 35.5%, 41.8% and 48.9% at end-2020, end-2021 and end-2022, respectively, representing an upward trend. PCHG's total adjusted debt increased to c. RMB5.4 billion at end-2022. The liquidity of PCHG was tight. At end-2022, PCHG had unrestricted cash balance and unused credit facilities of c. RMB0.1 billion and RMB2.1 billion, respectively, compared with its debt due within one year of c. RMB3.3 billion at the same time. Therefore, the company needs to roll over its short-term bank borrowings (end-2022: c. RMB2.6 billion). In addition, obtaining additional financing sources or government support are also important to the company in maintaining its liquidity.

Economy and Fiscal Condition of Pizhou: Pizhou is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Xuzhou City on behalf of Jiangsu Province, and located in the northernmost of Jiangsu Province. Pizhou ranked 45th among the China's top 100 counties in terms of comprehensive strength in 2022, with its GDP recording at c. RMB115.7 billion, representing a year-over-year growth rate of 4.2%. The Pizhou government's aggregate fiscal revenues are mainly derived from government fund income. The Pizhou government's budgetary revenue reached c. RMB4.3 billion in 2022, with the tax revenue accounting for 74.4% of its budgetary revenue. In addition, Pizhou's government fund income, mainly generated by land sales, dropped by 26.9% to c. RMB10.7 billion in 2022, owing to the weak property market. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 79.2% at end-2022 from 70.1% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

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