

Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weifang Urban Construction and Development Investment Group Co., Ltd.

HONG KONG, 16 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Weifang Urban Construction and Development Investment Group Co., Ltd. (“WUCDI” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Weifang Government’s Ownership and Supervision: The Weifang government holds 90% ownership of WUCDI through the State-owned Assets Supervision and Administration Commission of Weifang City (“Weifang SASAC”). The remaining 10% stake is held by Shandong Caixin Asset Management Co., Ltd., a LIDC which is fully owned by the Shandong Provincial Department of Finance. The Weifang government is the actual controller of the company. It 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 Weifang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Weifang and Strategic Alignment: WUCDI, as the key LIDC in Weifang, is primarily responsible for infrastructure construction and state-owned asset management and operation within the region. Serving as the key entity in charge of infrastructure projects throughout the entire city, WUCDI focuses on investing in and constructing urban infrastructure, transportation, and water conservancy facilities. In addition, the company is also responsible for the land development and transfer, heating supply, water

supply, tourism development and other state-owned asset management and operation business within Weifang. WUCDI 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: WUCDI received operational and financial support from the government. WUCDI received a total subsidy amount of c. RMB2.2 billion from 2020 to the first three months of 2023, mainly including operating subsidies. The Weifang government continued to inject capitals, equities, special funds and other assets into WUCDI to expand its asset size. Besides, the Weifang government will repurchase some infrastructure projects and provide policy supports to WUCDI to ensure its business operation. Given it is the key entity for infrastructure construction and land development and transfer in Weifang, WUCDI has an advantage in acquiring land resources and major projects. We believe WUCDI is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

WUCDI's Financial Matrix and Liquidity Position: WUCDI's total assets showed a continuous growth trend in the past years and reached RMB141.3 billion at end-March 2023, mainly due to the increase of investments in other equity instruments. The non-current assets of WUCDI accounted for c. 75.3% of the total assets at end-March 2023, and the overall assets were less liquid. WUCDI's financial leverage (total liabilities to total assets) was 47.8% and its adjusted debt increased to c. RMB50.3 billion at end-March 2023. The liquidity of WUCDI was sufficient. WUCDI had an unrestricted cash balance and unused credit facilities of c. RMB5.4 billion and RMB10.9 billion at end-March 2023, respectively, compared with its debt due within one year of c. RMB11.0 billion. Besides, WUCDI 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 Weifang: Weifang is a prefecture-level city of Shandong Province, with a total land area of c. 16,167 square kilometers. Weifang recorded an economic growth in 2022, achieving a GDP of c. RMB730.6 billion, with a year-on-year growth of 3.7%. Its GDP scale was ranked 4th out of all prefecture-level cities under the administration of Shandong Province in 2022. The aggregate fiscal revenue of the Weifang government was mainly derived from the budgetary revenue and government fund income. The Weifang government's budgetary revenue decreased to c. RMB61.8 billion in 2022 from c. RMB65.7 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income dropped to c. RMB70.9 billion in 2022 from c. RMB82.5 billion in 2021, owing to the weak property market. The budget deficit of the Weifang government was c. 37.5% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Weifang government increased to 117.9% at end-2022. The special purpose debt constituted a high proportion of the total debt.

Rating Sensitivities

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

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