

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Binzhou Beihai State-owned Assets Operation and Management Co., Ltd.

HONG KONG, 7 July 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Binzhou Beihai State-owned Assets Operation and Management Co., Ltd. (“BBSA” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the de facto local government of Binzhou Beihai Economic Development Zone (“Beihai EDZ”), the Management Committee of Beihai EDZ (“Beihai EDZ MC”) would provide very strong support to BBSA if needed, in light of its full ownership of BBSA, the strategic importance of BBSA as the most important local investment and development company responsible for infrastructure investment and development in Beihai EDZ, and the linkage between the Beihai EDZ MC and BBSA, including management appointment, supervision over BBSA’s strategic development, major investment and financing plans, strategic alignment and ongoing operational and financial support. In addition, the Beihai EDZ MC may face significant negative impact on its reputation and financing activities if BBSA encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The local government holds 100% ownership of BBSA through Economic and Trade Development Bureau (“ETDB”) of Beihai EDZ. The local government has strong control over BBSA, including management appointment and supervision of the strategic development, major investment and financing plans. In addition, the local government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company’s financial position.

Strategic Importance and Strategic Alignment: BBSA is the most important investment and development entity in Beihai EDZ. The company is mainly responsible for developing urban infrastructure, public facilities, industrial parks and affordable houses in Beihai EDZ. As the core platform of Beihai EDZ, BBSA’s business operation has been aligned with the local government’s development plan. The company plays an important role in promoting economic and social development in Beihai EDZ.

Ongoing Government Support: BBSA has received ongoing support from the local government, including capital and assets injection, operational subsidies, etc. The company received capital injections of RMB994 million between 2020 and 2022. The injected assets

mainly included cash and sea area use, which could generate stable rental income. The local government also provides annual operational subsidies of c. RMB30 million to BBSA in the past three years to support the company's operations in relation to providing public services. We expect BBSA to receive strong support from the local government in the future in light of its strategic importance.

Economy and Fiscal Strength of Beihai EDZ: Beihai EDZ maintained a high economic growth rate of 9.2% and 7.3% in 2021 and 2022, respectively. However, its aggregate GDP was moderately small, which was RMB12.8 billion in 2022. Beihai EDZ's economic growth was mainly fueled by the secondary industries in the past few years, which accounted for 74.4% of aggregate GDP in 2022. In recent years, its economic development focused on chemical, aluminum, marine industry and high-end equipment manufacturing.

The Beihai EDZ government's aggregate fiscal revenues were mainly derived from budgetary revenue. From 2020 to 2022, the Beihai EDZ government's fiscal revenue increased to RMB1.8 billion from RMB1.2 billion, with the tax revenue accounting for 78%-90% of its budgetary revenue. In addition, Beihai EDZ's fiscal self-sufficiency rate was sufficient, with a budget surplus of 11.8% in 2022.

Beihai EDZ's government debts continued to grow. At end-2022, the Beihai EDZ government's outstanding debt was RMB4.6 billion, up from RMB3.4 billion at end-2020. This was mainly due to the significant increase in special debts to support the local project development. Nevertheless, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had decreased to 181.0% at end-2022 from 211.4% at end-2020, due to the larger increase of aggregate revenue.

BBSA's Financial Matrix and Liquidity Position: BBSA's total asset grew significantly to RMB15.0 billion at end-March 2023 from RMB8.6 billion at end-2020. Over the same period, the company's total debt increased by 291% to RMB5.7 billion from RMB1.4 billion. As a result, BBSA's financial leverage, as measured by debt/capitalization, reached 44.3% at end-March 2023, up from 18.2% at end-2020.

BBSA's liquidity was moderately tight. At end-March 2023, the company had a cash balance of RMB1.1 billion, compared with its short-term debt of RMB2.2 billion. In addition, the company's financing channels are limited, mainly relying on bank borrowing and non-traditional financing. Nevertheless, we expect the company to roll over most of its short-term bank borrowings (c. RMB1.2 billion at end-March 2023). At the same time, the company had unused credit lines of RMB1.1 billion.

Rating Sensitivities

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

We would consider upgrading BBSA's rating if there is an upgrade in our internal credit assessment on the local 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 BBSA'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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