

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hunan Yuanjiang Qionghu Investment Construction Development Group Co., Ltd.**

HONG KONG, 18 July 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Hunan Yuanjiang Qionghu Investment Construction Development Group Co., Ltd. (“HYQI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yuanjiang (“the Yuanjiang government”) would provide very strong support to HYQI if needed, in light of its 90% ownership of HYQI, the strategic importance of HYQI as the most important local investment and development company responsible for infrastructure investment and development in Yuanjiang, and the linkage between the Yuanjiang government and HYQI, including management appointment, supervision over HYQI’s strategic development, major investment and financing plans, strategic alignment and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if HYQI encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Yuanjiang government holds 90% ownership of HYQI through Yuanjiang State-owned Assets Service Center (“Yuanjiang SASC”). The Yuanjiang government has strong control over HYQI, 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:** HYQI is Yuanjiang’s most important investment and development entity. The company is mainly responsible for developing important infrastructure, resettlement housing and industrial park projects under the instruction of the Yuanjiang government. As the core platform of Yuanjiang, HYQI’s business operation has been aligned with the local government’s social and economic development plans.

**Ongoing Government Support:** HYQI has received ongoing support from the local government, including capital and assets injection, operational subsidies, etc. The company received cash capital injections of RMB212 million, 1,037 million and 93 million in 2020, 2021

and 2022, respectively, from the Yuanjiang government. The local government also injected assets, including equity of other SOE and LIDCs in Yuanjiang, cash, land use rights and properties, amounting to RMB2.8 billion between 2020 and 2022.

In addition, the Yuanjiang government provides operational subsidies of RMB185 million to HYQI in the past three years, to support the company's operations in relation to providing public services. We expect HYQI to receive strong support from the local government in the future in light of its strategic importance.

***Economy and Fiscal Strength of Yuanjiang:*** Yuanjiang is a county-level city under the administration of Yiyang City and is located in northern Hunan Province. Lay in the south of Dongting Lake, Yuanjiang is a city featured with a land of fish and rice. The primary industry's contribution is significant to Yuanjiang's economy, representing 25.0% of its GDP in 2022. Yuanjiang is promoting its industrial development, focusing on the supply chain development of machinery manufacturing, shipbuilding, ecological and green food, textile and garment industries. However, its industrial-added value dropped by 1.7% in 2022. Yuanjiang's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.5%, 8.3% and 2.3% in 2020, 2021 and 2022, respectively. Yuanjiang's GDP reached c. RMB30.0 billion in 2022, and was ranked 3rd among six districts and counties under the jurisdiction of Yiyang. GDP per capita of Yuanjiang reached c. RMB 53,600 in 2022, lower than Hunan (c. RMB73,600) and China (c. RMB85,700).

The Yuanjiang government's budgetary revenue grew significantly to RMB1.3 billion in 2022 from 0.8 billion in 2020, representing a high compound annual growth rate of 33.9% ("CAGR"). However, the Yuanjiang government's budgetary revenue scale remained small, and its fiscal self-sufficiency capacity was weak, with a high budget deficit -301.5% in 2022. The outstanding debt of the Yuanjiang government continued to grow in the past three years and reached RMB6.1 billion at end-2022, up from RMB4.1 billion at end-2020, representing a CAGR of 21.7%. This was mainly due to the new issuance of special debts supporting Yuanjiang's project developments. As measured by the total government debt/aggregate revenue, the government debt ratio was lifted to 100.0% in 2022 from 64.8% in 2020.

***HYQI's Financial Matrix and Liquidity Position:*** HYQI's total asset grew steadily to RMB21.4 billion at end-2022 from RMB16.1 billion at end-2020, representing a CAGR of 15.1%. The company relied on both capital injections and borrowings to fund its asset expansion. HYQI received multiple capital injections in recent years, enlarging its paid-in capital and capital reserve to RMB1.1 billion and RMB7.1 billion at end-2022 from RMB340 million and RMB5.5 billion, respectively. Over the same period, the company's total debt increased to RMB8.2 billion from 7.0 billion. Its financial leverage, as measured by debt/capitalization, stayed at a manageable level of 46.8% at end-2022.

HYQI's liquidity was tight. At end-2022, the company had a cash balance of RMB426 million, compared with its short-term debt of RMB2.6 billion. The company has access to multiple financing channels, such as bank borrowings, bond issuances and other non-traditional financings. At end-2022, the company has unused credit lines of RMB1.2 billion and an

available bond issuance quota of RMB250 million. Still, rolling over its short-term bank borrowings (c. RMB560 million at end-2022) and receiving timely cash payment and support from the local government is essential for HYQI to maintain its liquidity.

### **Rating Sensitivities**

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

We would consider upgrading HYQI's rating if there is an upgrade in our internal credit assessment on the Yuanjiang 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 HYQI'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.

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