

Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Luoyang Guosheng Investment Holding Co., Ltd.

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

The Issuer Credit Rating reflects a high possibility that the People’s Government of Luoyang City (“Luoyang government”) would provide very strong support to LYGI if needed, in light of its full ownership of LYGI, the strategic importance of LYGI as the flagship LIDC responsible for infrastructure investment, affordable houses, and other city development and operation functions in Luoyang, and the linkage between the Luoyang government and LYGI, including management appointment, supervision over LYGI’s strategic development, major investment and financing plans, strategic alignment and ongoing operational and financial support. In addition, the Luoyang government may face significant negative impact on its reputation and financing activities if LYGI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Luoyang government holds 100% ownership of LYGI through State-owned Assets Supervision and Administration Commission of Luoyang Municipal People’s Government. The Luoyang government has strong control over LYGI, 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 to Luoyang and Strategic Alignment: In 2021, the Luoyang government initiated a state-owned enterprises consolidation and reconstruction, aiming to make LYGI the flagship LIDC responsible for infrastructure investment, affordable houses, and other city development and operation functions in Luoyang. As the largest and the most important LIDC in Luoyang, LYGI’s business operation has been aligned with the local government’s development plans.

Ongoing Government Support: LYGI has received ongoing support from the Luoyang government, including capital and assets injection, operational subsidies, etc. The company received capital injections of RMB19.3 billion in the past three years. The injected assets mainly included cash, state-owned enterprises’ equity, state-owned properties, fixed assets, etc. Over the same period, the Luoyang government also provides operational subsidies of c.

RMB2.0 billion to support LYGI's operations in relation to providing public services. We expect LYGI to receive strong support from the Luoyang government in the future in light of its strategic importance.

Economy and Fiscal Strength of Luoyang: Luoyang realized an aggregate GDP of RMB567.5 billion in 2022 and was ranked 2nd among 17 prefecture-level cities in Henan Province. However, its GDP growth rate fluctuated in the past three years, which was 3.0%, 4.5% and 3.0% in 2020, 2021 and 2022, respectively. As an important industrial city in the central region of China, Luoyang has developed five leading industries, namely advanced equipment manufacturing, new materials, high-end petrochemicals, IT and tourism in recent years.

The Luoyang government's aggregate fiscal revenue demonstrated a downward trend between 2020 and 2022. This was due to the significant drop in the government fund income, mainly generated by the land-use right concession, amid the property downturn. Nevertheless, the Luoyang government's budgetary revenue was largely stable over the same period. Its fiscal self-sufficiency rate was moderately low but improved, with a budget deficit of -58.2% in 2022, narrowing from -68.9% in 2020.

The outstanding debt of the Luoyang government continued to grow in the past three years, mainly due to the large new issuance of special debts to support the development of transportation, shanty town renovation and healthcare projects, rising its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue.

LYGI's Financial Matrix and Liquidity Position: LYGI's total asset grew steadily to RMB196.6 billion at end-March 2023 from RMB157.8 billion at end-2020, mainly due to the company's active participation in Luoyang's project construction and equity investment. The company relied on both borrowings and capital injections from the local government to fund its asset expansion, lifting its total debt and financial leverage (measured by debt/capitalization). LYGI's liquidity was moderate. Its cash coverage to short-term debts was relatively low at end-March 2023. Nevertheless, the company has access to multiple financing channels, including bank borrowing, bond issuance, and non-traditional financing, with sufficient unused credit lines.

Rating Sensitivities

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

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