

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhangzhou Yuanshan Development Co Ltd.

HONG KONG, 19 July 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Zhangzhou Yuanshan Development Co Ltd. (“ZZYD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Zhangzhou Municipal People’s government (“Zhangzhou government”) would provide moderately strong support to ZZYD if needed. This mainly considers the Management Committee of Zhangzhou Hi-Tech District’s (“ZHTD MC”) (a local office of the Zhangzhou government and the de facto local government of Zhangzhou Hi-Tech District (“ZHTD”)) full ownership of ZZYD, ZZYD’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure construction in ZHTD, which is a national high-tech industrial development zone and one of the four key driver zones of Zhangzhou’s economic development, and the linkage between ZHTD MC and ZZYD, 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 Zhangzhou government may face negative impact on its reputation and financing activities if ZZYD encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: ZHTD MC, as a local office of the Zhangzhou government, holds 100% shares of ZZYD through Finance Bureau of ZHTD. The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: ZZYD plays an important role in Zhangzhou’s economic development. ZZYD’s business operations and strategic planning have been aligned with the local government’s economic and social development policies. ZZYD is an important LIDC responsible for infrastructure construction and asset operation in ZHTD, which is a national high-tech industrial development zone and one of the four key driver zones of Zhangzhou’s economic development.

Ongoing Government Support: ZHTD MC injected leasable properties of RMB11,535 million and 155 million in 2019 and 2020, respectively, into ZZYD. ZHTD MC also transferred roads amounting to RMB1.4 billion to the company in 2020. However, we believe these roads are non-profitable assets. In addition, the company received ongoing operation subsidies of RMB125 million between 2020 and 2022. The Zhangzhou government has also guided the major state-owned entity in Zhangzhou to provide necessary support to ensure ZHTD's development and relieve any liquidity stress of LIDCs in ZHTD. We expect ZZYD to receive ongoing support from the local government in the coming years considering its strategic importance in Zhangzhou.

Economy and Fiscal Condition of Zhangzhou and ZHTD: The GDP of Zhangzhou reached c. RMB570.7 billion, representing a year-over-year growth rate of 6.9% in 2022, which was ranked 4th out of all cities in Fujian Province in terms of GDP in 2022. Zhangzhou's GDP per capita was c. RMB112,578 and disposable income per capita c. RMB36,506, up 13.5% and 7.9% compared to 2021, respectively.

The Zhangzhou government's aggregate fiscal revenues are mainly derived from budgetary revenue. The budgetary revenue of the Zhangzhou government increased to RMB25.1 billion and represented an annual growth rate of 16.7% in 2022. The financial self-sufficiency rate of Zhangzhou remained low and recorded a budget deficit of 99.2% in 2022.

ZHTD was established in November 2012 and was upgraded to a national high-tech industrial development zone in December 2013 with the approval of the State Council. As a key driver of Zhangzhou's economic development, ZHTD is focusing on the development of equipment manufacturing, electronic information, food and health care and modern service industries. ZHTD maintained rapid economic growth in the past few years, with growth rates of 4.7%, 12.3% and 6.9% in 2020, 2021 and 2022, respectively. ZHTD's GDP reached RMB20.9 billion in 2022.

ZZYD's Financial and Liquidity Position: ZZYD's asset size grew significantly to RMB17.8 billion at end-March 2023 from RMB8.2 billion at end-2020. This was due to the company's active participation in ZHTD's project construction, as well as its investments in properties and equities in Zhangzhou. ZZYD primarily relied on borrowings to support the expansion of its asset. The company's total debt increased by 385.8% to RMB9.7 billion at end-March 2023 from RMB2.0 billion at end-2020. Therefore, the company's financial leverage, as measured by total debt/capitalization, increased significantly to 61.8% from 26.0% over the same period.

The liquidity of ZZYD was tight. At end-March 2023, the company had cash of RMB1.3 billion (including restricted cash of RMB717 million). At the same time, the company had debt due within one year of RMB4.0 billion. ZZYD has access to various financing channels, including bank borrowings and other non-traditional financings, to support its debt repayments and business operations. The company had unused credit lines of RMB604 million and an available bond issuance quota of RMB728 million at end-March 2023. Nevertheless, successfully rolling over its short-term bank borrowings (c. RMB1.2 billion at end-March 2023)

and obtaining additional financing or government support are important for ZZYP to maintain its liquidity.

Rating Sensitivities

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

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