

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Bazhou Development Holding Group Co., Ltd.

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

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Bazhou government holds the full ownership of BDHG through Bazhou Finance Bureau (“Bazhou FB”), and it is the ultimate controlling shareholder of the company. The Bazhou government 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 Bazhou government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: BDHG, as the most important LIDC in Bazhou, is primarily responsible for the infrastructure construction and operation of state-owned assets within the region with strong franchised advantages. The company undertakes most of Bazhou’s infrastructure projects in the region, and is responsible for water supply and sewage treatment, bail-out, trading and leasing business within the region. BDHG plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: BDHG continued to receive financial subsidies, mainly including operating subsidies and tax breaks, from the local government to maintain its

business operation. BDHG received a total of c. RMB233.0 million in subsidies between 2020 and 2022. In addition, BDHG received asset and capital injections in the form of equity, operating real estates, agent construction projects, lands, and other assets, which reached a total of c. RMB9.1 billion between 2020 and 2022 from the Bazhou government, to expand its asset size and diversify its business. We believe BDHG is likely to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

BDHG's Financial and Liquidity Position: BDHG's total assets showed a rapid growth in the past few years, with a growth rate of 39.3% and 150.5% in 2021 and 2022, respectively, and reached RMB13.0 billion at end-2022. The increase of BDHG's total assets in 2022 was largely due to its increase in inventories, intangible assets and investment properties. BDHG had large proportion of non-current assets (73.9% at end-2022) and the overall asset liquidity was weak. BDHG's financial leverage (total liabilities to assets) was 12.5 %, 13.0% and 15.0% at end-2020, end-2021 and end-2022, respectively, representing an upward trend but remained at a relatively low level. BDHG's total adjusted debt increased by 265.4% to c. RMB1.5 billion at end-2022. The liquidity of BDHG was moderately weak. At end-2022, BDHG had unrestricted cash balance and unused credit facilities of c. RMB0.2 billion and RMB0.9 billion, respectively, compared with its debt due within one year of c. RMB0.4 billion. However, BDHG has access to various financing channels, such as bank loans and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Bazhou: Bazhou, a county-level city of Langfang City, Hebei Province, and is located in The Beijing-Tianjin-Xiongan Central Core Area. Bazhou is well served for transport links and enjoys unique location advantages. The economic growth of Bazhou fluctuated in the past three years. The GDP growth was 1.8%, 4.1% and 2.7% in 2020, 2021 and 2022, respectively. The GDP amount was c. RMB45.0 billion in 2022, ranking 3rd among all districts and counties under the jurisdiction of Langfang. The aggregate fiscal revenue of the Bazhou government mainly originated from the budgetary revenue and transfer payment from the higher government. The Bazhou government's budgetary revenue maintained a relatively stable trend in the past three years, and reached c. RMB2.9 billion in 2022. The tax revenue was relatively volatile, accounting for 43.7%-64.9% of the budgetary revenue from 2020 to 2022. The debt ratio, which is measured as total government debt/aggregate revenue, continued to increase over the past three years, from 25.9% at end-2020 to 83.3% at end-2022, mainly due to the significant increase in special debt.

Rating Sensitivities

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

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