

**Lianhe Ratings Global Limited has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Heshan Public Asset Management Co., Ltd.**

HONG KONG, 2 August 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Heshan Public Asset Management Co., Ltd. (“HPAM” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Heshan government indirectly holds the full ownership of HPAM through the Heshan Asset Management Committee Office, via Heshan Assets Management Co., Ltd. The Heshan government is the actual controller of the company. It 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 Heshan government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Heshan and Strategic Alignment:** HPAM, as the key LIDC in Heshan, is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as the key entity in charge of infrastructure projects in major regions of the city, HPAM focuses on constructing municipal roads and engineering projects. In addition, the company is also responsible for the land development, industrial platform construction, renovation projects, sewage treatment and other state-owned asset management and operation business within Heshan, with strong regional advantages. HPAM plays an important role in promoting the economic and social development of the region. Its

business operation and development have been aligned with the government's development plans.

**Ongoing Government Support:** HPAM received operational and financial support from the government. HPAM received a total subsidy amount of c. RMB287.9 million from 2020 to 2022, mainly including operating subsidies. The Heshan government continued to inject capitals, equities, land and other assets into HPAM to expand its asset size. Besides, the Heshan government will repurchase some infrastructure projects and provide policy supports to HPAM to ensure its business operation. Given it is the key entity for infrastructure construction and land development in Heshan, HPAM has an advantage in acquiring land resources and major projects. We believe HPAM is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**HPAM's Financial Matrix and Liquidity Position:** HPAM's total assets showed a continuous growth trend in the past years and reached RMB20.4 billion at end-2022, mainly due to the inventories and other receivables, which have steadily increased in tandem with the company's infrastructure construction projects. The non-current assets of HPAM accounted for c. 51.9% of the total assets at end-2022, and the overall assets were less liquid. HPAM's financial leverage (total liabilities to total assets) was 48.4% and its adjusted debt increased to c. RMB8.3 billion at end-2022. The liquidity of HPAM was tight. HPAM had an unrestricted cash balance and unused credit facilities of c. RMB468 million and RMB778 million at end-2022, respectively, compared with its debt due within one year of c. RMB2.7 billion. Having said that, HPAM has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Strength of Heshan:** Heshan is a county-level city of Guangdong Province and managed by Jiangmen City, with a total land area of c. 1,083 square kilometers. Heshan recorded an economic growth in 2022, achieving a GDP of c. RMB45.9 billion, with a year-on-year growth of 2.8%. Its GDP scale was ranked 4<sup>th</sup> among all districts and counties of Jiangmen in 2022. The aggregate fiscal revenue of the Heshan government was mainly derived from the budgetary revenue and government fund income. The Heshan government's budgetary revenue decreased to c. RMB3.6 billion in 2022 from c. RMB3.7 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income dropped to c. RMB1.7 billion in 2022 from c. RMB2.2 billion in 2021, owing to the weak property market. The budget deficit of the Heshan government was c. 37% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Heshan government increased to 136.9% at end-2022 from 60.8% at end-2020.

### **Rating Sensitivities**

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

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