

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Sanya Yazhou Bay Science and Technology City Holding Group Co., Ltd.

HONG KONG, 3 August 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Sanya Yazhou Bay Science and Technology City Holding Group Co., Ltd. (“STCH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Sanya Municipal People’s Government (“the Sanya government”) would provide strong support to STCH if needed. This mainly considers the Sanya Yazhou Bay Science and Technology City Authority’s (“YZBSTC Authority”, a specially established institution of the Sanya government) full ownership of STCH, STCH’s strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction and state-owned assets operation in Yazhou Bay Science and Technology City (“YZBSTC”) of Sanya, and the linkage between the local government and STCH, 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 Sanya government may face significant negative impact on its reputation and financing activities if STCH encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: STCH is fully owned by YZBSTC Authority, a specially established institution of the Sanya government with municipal administrative and approval rights. 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: STCH is the most important construction and operation entity supporting the development of YZBSTC, a provincial technology development zone focusing on Nanfan and the deep sea industries in Sanya. STCH’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: STCH received ongoing support in the forms of capital injections, asset injections and operational subsidies from the local government. The local government injected sizeable assets into STCH, including cash, properties, lands, equity and of state-owned enterprises between 2020 and 2022. In addition, STCH received increasing operational subsidies to support the company in carrying out more public functions. We expect STCH to receive ongoing support from the local government in the coming years considering its strategic importance in Sanya.

Economy and Fiscal Condition of Sanya: Sanya is a prefecture-level city of Hainan Province, located at the southern end of Hainan Island, with convenient transportation and abundant tourism resources. As an international tourist destination featured with tropical seaside scenery, the tourism industry plays an important role in Sanya's economy. The total tourism revenue was equivalent to c. 50% of its GDP in 2022. This also promotes Sanya's tertiary industry development, accounting for over 70% of the GDP in the past three years. However, Sanya's economy was severely hit by Covid related travel restrictions in 2022. It recorded a GDP of RMB84.7 billion in 2022, representing a year-over-year drop of 4.5%.

Due to the significant impact of Covid, the Sanya government's budgetary revenue dropped by 14.1% to RMB9.8 billion in 2022 from RMB11.7 billion in 2021, with the tax revenue's contribution decreased to 61.0% from 71.3% over the same period as the result of large-scale value-added tax credit refunds in 2022 to support local enterprises. At the same time, the Sanya government's budgetary expenditure continued to grow, mainly to support initiatives of improving people's well-being. Therefore, its fiscal self-sufficiency capacity decreased, with a budget deficit of 133.6% in 2022, up from 72.8% in 2021. In addition, Sanya's government fund income, mainly generated by land sales, dropped to RMB7.1 billion from RMB9.7 billion over the same period, owing to the weak property market.

At end-2022, the Sanya government's outstanding debt was RMB51.4 billion, including RMB14.8 billion of general obligations and RMB36.5 billion of special debts. Given that the Sanya government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 215.7% at end-2022 from 105.5% at end-2020.

STCH's Financial and Liquidity Position: STCH's asset size grew significantly to RMB32.5 billion at end-March 2023 from RMB13.5 billion at end-2020. This was mainly due to the surge in equity resulting from the local government's capital and asset injection (most of them were cash). The company's total debt also increased by 182.4% to RMB8.2 billion at end-March 2023 from RMB2.9 billion at end-2020. As a result, the company's financial leverage, as measured by total debt/capitalization, increased slightly to 27.1% from 22.9% over the same period.

The liquidity risk of STCH was manageable. At end-March 2023, the company had cash of RMB2.0 billion (including restricted cash of RMB60 million). At the same time, the company had debt due within one year of RMB1.8 billion. STCH has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to

support its debt repayments and business operations. Moreover, the company had unused credit lines of RMB5.8 billion at end-March 2023.

Rating Sensitivities

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

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

Contact Information

Primary Analyst
Roy Luo, FRM
Associate Director
(852) 3462 9582
roy.luo@lhratingsglobal.com

Secondary Analyst
Sigmund Jiang, CFA
Analyst
(852) 3462 9587
sigmund.jiang@lhratingsglobal.com

Committee Chairperson
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.