

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hubei New Tongdu Urban Investment and Development Group Co., Ltd.**

HONG KONG, 14 September 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Hubei New Tongdu Urban Investment and Development Group Co., Ltd. (“HNTU” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Daye City (“the Daye government”) would provide strong support to HNTU if needed, in light of its indirect 100% ownership of HNTU through Hubei Optics Valley East State-owned Capital Investment and Operation Group Co., Ltd. (“HOVE”, ‘BBB’/Stable), HNTU’s strategic importance as an important local investment and development company that is responsible for infrastructure construction and land consolidation in Daye City (“Daye”), and the strong linkage between the Daye government and HNTU, including the control of the senior management, management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Daye government may face significant negative impact on its reputation and financing activities should HNTU encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Daye government indirectly holds 100% shares of HNTU through HOVE. Still, HNTU retains a high degree of independence in business operation and financial management, and the Daye government has strong direct control over HNTU, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, Daye 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:** HNTU is an important entity responsible for land consolidation and infrastructure construction to support the development of Daye. Besides, HNTU is also the major water supplier in Daye. HNTU’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

**Ongoing Government Support:** HNTU received ongoing support in the forms of capital injections, asset injections and operational subsidies directly from the local government. The local government injected assets into HNTU, including properties and lands, amounting to

RMB7.2 billion between 2020 and 2022. In addition, the company received operational subsidies of RMB362 million, RMB496 million and RMB466 million in 2020, 2021 and 2022, respectively. We expect HNTU to continue to receive ongoing support from the local government in the coming years, considering its strategic importance in Daye.

***Economy and Fiscal Condition of Daye:*** Daye's GDP growth rate fluctuated in the past years, which recorded at -4.2%, 14.4% and 6.5% in 2020, 2021 and 2022, respectively. Daye's GDP amount reached RMB86.1 billion in 2022 and was ranked 1st out of six counties and districts of Huangshi City. The aggregate fiscal revenue of the Daye government mainly originated from the budget revenue and government fund income. The fiscal self-sufficiency of Daye was insufficient, and it recorded a budget deficit of 40.9% in 2022. On the other hand, the government fund income of Daye government increased significantly from RMB1.8 billion in 2020 to RMB8.8 billion in 2022.

The outstanding debt of the Daye government kept growing in the past few years. Nevertheless, its government debt ratio (total outstanding debt/ aggregate fiscal revenue) decreased from 78.6% in 2020 to 60.0% in 2022, mainly due to the faster growth of aggregate fiscal revenue.

***HNTU's Financial Profile:*** HNTU's asset size grew to RMB51.9 billion at end-March 2023 from RMB44.2 billion at end-2020. This was mainly due to the surge in equity resulting from the local government's capital injection and asset injection. The company's total debt slightly increased to RMB19.0 billion at end-March 2023 from RMB17.9 billion at end-2020. Due to the larger increase in equity in 2022, the company's financial leverage, as measured by total debt/capitalization, decreased to 38.9% at end-March 2023 from 41.8% at end-2020.

***Tight liquidity and high non-traditional financing proportion:*** The liquidity of HNTU was weak. At end-March 2023, the company had cash of RMB772.8 million (including restricted cash of RMB67.7 million). At the same time, the company had debt due within one year of RMB8.9 billion. Yet HNTU has access to various financing channels, including bank borrowings, offshore and onshore bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused credit lines of RMB8.8 billion at end-March 2023.

A high level of HNTU's debts were related to non-traditional financings, including finance leasing, trust loans and other borrowings. Most of the non-traditional financings were borrowed by Hubei Jingchu Investment Development Co., Ltd., the key operating subsidiary of HNTU. HNTU intends to replace those non-traditional financings with bank loans and gradually decrease the amount of non-traditional financings to below 10% of its total debts in the long term. Also, HNTU targets to control its total average financing cost below 7.5%.

## **Rating Sensitivities**

We would consider downgrading HNTU's rating if (1) there is perceived weakening in support from the Daye government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Daye government's

ownership of HNTU, or (3) there is a downgrade in our internal credit assessment on the Daye government.

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