

Lianhe Ratings Global Limited has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhukuan Group Holding Co., Ltd. of Zhuhai City

HONG KONG, 19 September 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Zhukuan Group Holding Co., Ltd. of Zhuhai City (“Zhukuan Group” or “the company”). The Outlook is Stable.

The Issuer Rating reflects Zhukuan Group’s important strategic position as the window liaison state-owned enterprise stationed in Macau by the People’s Government of Zhuhai (“Zhuhai government”) and the sole enterprise with dual headquarters in Zhuhai City, Guangdong Province (“Zhuhai”) and Macau, the strong financial performance in terms of increasing asset size, revenue and profit, as well as the strong debt servicing ability. Moreover, Zhukuan Group has a long history of conducting business in both Zhuhai and Macau, which has advantages in terms of obtaining external government support and overall business development. However, the rating is constrained by Zhukuan Group’s limited market position and fluctuating profit margins.

The Stable Outlook reflects our expectation that Zhukuan Group will maintain its operation efficiency and high profitability, further diversify its business profile, while the Zhuhai government will continue to ensure the company’s stable operation.

Key Rating Rationales

The Sole Window Liaison State-Owned Enterprise Stationed in Macau by the Zhuhai Government: Zhukuan Group, as a state-owned enterprise with dual headquarters in Zhuhai and Macau, is primarily owned by the Zhuhai State-owned Assets Supervision and Administration Commission (“Zhuhai SASAC”). Serving as the exclusive window liaison company representing Zhuhai in Macau, Zhukuan Group holds a unique and strategically vital position in fostering economic ties between these two cities. As the economic collaboration between Zhuhai and Macau continues to deepen, Zhukuan Group is poised to receive increasingly support for the expansion of its cross-border business. The company has great advantages in terms of government support and overall business development.

Improved Revenue Diversification with Expanding Cross-border Business: Zhukuan Group is mainly engaged in property development, labor service, and other cross-border business (mainly including cross-border labor service, engineering and financing service). The increasing contributions from trading and hotel services led the diversification of Zhukuan Group’s revenue mix, with the contribution from property development and labor services decreasing from 87% in 2020 to 77% in 2022. Benefiting from the supportive policies of the Zhuhai government, the company is actively pursuing cross-border business expansion,

particularly through the development of the cross-border human resources service platform. Additionally, the company has recently established cross-border finance lease and fund investment business to further utilize its regional advantages and broaden the capital flow channels between Zhuhai and Macau.

Stable Property Sales with Adequate Land Bank but High Concentration Risk: Zhukuan Group experienced continuous growth in its real estate development business income from 2020 to 2022, with a compound annual growth rate (CAGR) of 53.2%. As one of the pioneering property development companies in Zhuhai, Zhukuan Group possesses a substantial land bank with competitive costs. The primary focus of Zhukuan Group's property development is in Zhuhai, which consists of over 95% of its land bank portfolio, demonstrating a high level of concentration risk. Besides, the contracted sales amount and GFA have experienced fluctuations starting from 2020. Given the current challenging conditions in the real estate market, the company may face potential adverse pressure on the overall sales performance.

Improved Financial Metrics and High Profit Margin: Zhukuan Group's asset showed a steady growth in the past few years and reached RMB9.1 billion at end-June 2023, representing an increase of 16.3% from end-2022. Its revenue also recorded a stable growth, recognizing RMB1.7 billion in the first half of 2023. The gross profit margin remains relatively high at 36%-40% from 2020 to 2022, mainly driven by the low land cost of its property projects. However, its gross margin decreased to 25.5% in the first half of 2023, due to the increasing proportion of labor service and merchandising sales. The EBITDA interest coverage (EBITDA/Interest) also improved from 4.9x in 2021 to 6.5x in 2022, as the company continued to improve its profitability.

Increasing Leverage and Sufficient Liquidity: Zhukuan Group's total debt increased to RMB2.7 billion at end-June 2023 from RMB854.4 million and RMB1.8 billion at end-2021 and end-2022, respectively, due to the expansion of its business scale. Its debt to capitalization ratio also increased to 42.2% at end-June 2023 from 20.4% and 32.5% from end-2021 and end-2022. The minority interest increased significantly from RMB1.6 million at end-2021 to RMB207.8 million at end-June 2023. Zhukuan Group's financial leverage, as measured by adjusted debt over EBITDA, increased slightly but remained relatively low at 3.1x in 2022, compared with 2.1x in 2020. The impact from the total debt increase was partially offset by the EBITDA growth in 2022. The short-term debt contributed a proportion of 34%-41% of its total debt from end-2021 to end-June 2023. At end-June 2023, Zhukuan Group had RMB2.8 billion of cash (RMB2.6 billion of unrestricted cash) and unutilized credit line of RMB3.5 billion to fully cover its short-term debt of RMB1.1 billion.

Strong External Support from the Zhuhai Government: Zhuhai is a prefecture city of Guangdong Province and it is one of the five Independent Planning Status cities under the National Social and Economic Development Plan. The Zhuhai government has 90% ownership of Zhukuan Group via the Zhuhai SASAC, while the remaining 10% is held by the Guangdong Provincial Finance Department ("Guangdong FB"). The Zhuhai 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. As the exclusive window liaison company representing Zhuhai in Macau, Zhukuan Group undertakes certain government functions in these two cities, including infrastructure-related projects construction, labor service supply and cross-border capital asset investment and operation. Zhukuan Group plays an important role of accelerating in-depth cooperation between Zhuhai and Macau. It has a proven track record of receiving supports from the local government, including operation subsidies, equity transfer, tax breaks, policy support and guidance from the government. Following the equity transfer of 100% stake of Zhuhai Southern Human Resource Service Co., Ltd in 2020, Zhukuan Group has further strengthened its government function as the largest labor service provider in Macau and western Guangdong Province.

Rating Sensitivities

We would consider downgrading Zhukuan Group's rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage to consistently below 5x or debt over EBITDA leverage consistently to above 3.5x, or (2) it were to suffer a significant deterioration in operating performance in terms of revenue, profit margin or cash flow generation, or its liquidity profile is worsened, or (3) there is a decrease in support from or function for the local government.

We would consider upgrading Zhukuan Group's rating if (1) it were to significantly improve its operating performance, and/or (2) it were to improve its financial leverage and liquidity consistently, and/or (3) there is an increase in support from or function for the local 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 methodologies used in this Zhukuan Group's rating are *Lianhe Global's General Corporate Rating Criteria* published on 31 December 2021 and *General Corporate Rating Criteria: Addendum* published on 30 August 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
Jack Li, CESGA
Analyst
(852) 3462 9585

jack.li@lhratingsglobal.com

Secondary Analyst
Toni Ho, CFA, FRM
Director

(852) 3462 9578

toni.ho@lhratingsglobal.com

Committee Chairperson

Joyce Huang, CFA

Managing Director

(852) 3462 9586

joyce.huang@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.