

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

HONG KONG, 28 September 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Guangyuan Lizhou Development Holding (Group) Co., Ltd. (“GLDH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Lizhou (“the Lizhou district government”) would provide strong support to GLDH if needed. This mainly considers the Lizhou district government’s full ownership of GLDH, GLDH’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure development in Lizhou District, and the linkage between the Lizhou district government and GLDH, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Lizhou district government may face significant negative impact on its reputation and financing activities if GLDH encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Lizhou district government holds 100% shares of GLDH through Guangyuan Lizhou District State-owned Assets Supervision and Management and Financial Works Bureau. The Lizhou district government has strong control over the company, including the appointment of senior management and supervision of GLDH’s 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: GLDH is a major development platform in Lizhou District. The company develop important urban infrastructure, resettlement houses, urban renovation, land consolidation and road work projects entrusted by The Lizhou district government. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government provided ongoing support to GLDH. The company received assets, include mining rights, local franchises for parking lots and billboards, etc., valued at RMB4,840 million from the local government in 2022. In addition,

the local government supplied operational subsidies c. 60 million annually between 2020 and 2022 to support GLDH's activities in relation to providing public goods. We expect GLDH to receive ongoing support from the local government in the coming years considering its strategic importance in Lizhou.

Economy and Fiscal Condition of Lizhou: Lizhou District is in the heart of Sichuan's Guangyuan City ("Guangyuan"). It serves as the political, economic, and cultural center of Guangyuan and is where the People's Government of Guangyuan Municipality locates. In 2022, the total GDP of Lizhou District was RMB38.47 billion, ranking first among 4 counties and 3 districts under Guangyuan's jurisdiction. However, its economic growth has seen significant fluctuations over the past three years, with a slight recession in 2022 owing to Covid's impact. In addition, Lizhou District's fixed asset investment dropped significantly in 2022.

The Lizhou district government's budgetary revenue was small, amounting to RMB852 million in 2022, while its fiscal self-sufficiency was weak, with a high fiscal deficit rate of -271.8%. The Lizhou district government heavily relied on transfer payments from higher-level governments, which accounted for over 60% of aggregate revenue in the past three years.

The outstanding debt of The Lizhou district government has been growing continuously over the past three years, mainly due to the new issuance of special debts to support infrastructure and urban renewal projects. At end-2022, the government debt balance was RMB4.39 billion, up from RMB2.75 billion at end-2020. The government debt ratio (outstanding debt/total aggregate revenue) remained high, which was 95.8% at end-2022.

GLDH's Financial and Liquidity Position: GLDH's total assets doubled to RMB16.62 billion at end-March 2023 from RMB8.28 billion at end-2020, mainly supported by the asset injections from the Lizhou district government in 2022, enhancing the company's equity base to RMB9.91 billion from RMB4.90 billion. The company's debts also increased significantly to RMB2.83 billion from RMB1.84 billion over the same period. Due to the larger increase in the equity, the company's financial leverage has maintained at a relatively low level in the past few years. The total debt/capitalization of the company decreased to 22.2% at end-March 2023 from 27.3% at end-2020.

GLDH's liquidity was moderate. At end-March 2023, the company had cash of RMB1.19 billion (including restricted cash of RMB454 million). At the same time, the company had debt due within one year of RMB1.84 billion. GLDH mainly relies on bank borrowings to finance its debt repayments and business operations. We expect the GLDH to be able to roll over most of its short-term bank borrowings (end-March 2023: RMB232 million). At the same time, the company also had unused credit lines of RMB1.16 billion at end-March 2023.

Rating Sensitivities

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

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