

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chuzhou Nanqiao Urban Investment Holding Group Co., Ltd.

HONG KONG, 10 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chuzhou Nanqiao Urban Investment Holding Group Co., Ltd. (“CNUI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Nanqiao District, Chuzhou City (“the Nanqiao government”) would provide very strong support to CNUI if needed, in light of its full ownership of CNUI, CNUI’s strategic importance as the sole construction and development platform in Chuzhou’s Nanqiao District (“Nanqiao”), and the linkage between the Nanqiao government and CNUI, 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 Nanqiao government may face significant negative impact on its reputation and financing activities if CNUI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Nanqiao government holds 100% ownership of CNUI through the Nanqiao State-owned Assets Supervision and Administration Commission (“the Nanqiao SASAC”). The Nanqiao government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Nanqiao government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Nanqiao and Strategic Alignment: After Nanqiao District’s state-owned enterprises integration in 2022, CNUI became the sole construction and development platform in Nanqiao District. The company undertakes most project constructions within the region. Its business operation and strategic planning have been aligned with the government’s development plans, playing a significant role in promoting the economic and social development of the region.

Ongoing Government Support: CNUI receive ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. We believe that the government support will remain intact given the company’s strategic importance in

Nanqiao District. Between 2020 and the first half of 2023, the local government injected cash capital of RMB869 million into CNUI. In addition, the company received RMB2.7 billion worth of assets from the local government. The local government also provided financial subsidies amounting to RMB550 million over the same period to CNUI to support its activities in relation to public interest.

Economy and Fiscal Condition of Nanqiao: Nanqiao is a district of Chuzhou City, Anhui Province, and is located at the junction of Jiangsu and Anhui provinces. Nanqiao district is the bridgehead of Anhui Province’s “eastward development” strategy and the forefront of integration into the Nanjing metropolitan area. Nanqiao district’s economy remained relatively stable in recent years, and its GDP reached RMB24.4 billion in 2022, representing a year-over-year growth rate of 5.7%. Its economic development focused on equipment manufacturing, smart home appliances, new building materials and food industries in recent years.

The aggregate fiscal revenue of the Nanqiao government was mainly derived from the budgetary revenue and transfer payment. The Nanqiao government’s budgetary revenue grew steadily between 2020 and 2022. However, the fiscal self-sufficiency rate of the Nanqiao government was low, with fiscal budget deficit of 65.6% in 2022. Yet the Nanqiao government received strong external from higher governments, with transfer payment income increasing to RMB2.2 billion in 2022 from RMB1.7 billion in 2020. The Nanqiao government recorded few government fund incomes in the past three years given it needs to turn in all land concession revenue to the higher government.

The outstanding debt of the Nanqiao government continued to grow as it borrowed heavily in special debts to support public projects within the region. At end-2022, the Nanqiao District government’s outstanding debt amounted to RMB5.2 billion, up from RMB3.4 billion at end-2020. The government debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 122.5% from 99.1% over the same period.

CNUI’s Financial and Liquidity Position: CNUI’s total asset showed a continuous growth in the past three years, due to the company’s active participation in Nanqiao District’s projects development. The company relied on both capital injections and borrowings to fund its asset expansion. As a result, CNUI’s financial leverage, as measured by total debt/ capitalization, only increased moderately to 40.2% at end-June 2023, a manageable level, from 30.6% at end-2020. Nevertheless, we expect CNUI’s financial leverage to increase in the coming years given that it has many construction projects, as well as photovoltaic and semiconductor industrial parks projects under construction or scheduled to be constructed.

CNUI’s short-term debts repayment pressure was moderate. At end-June 2023, CNUI had unrestricted cash balance of RMB1.4 billion, compared with its debt due within one year of RMB1.9 billion. Moreover, CNUI has accessed to various financing channels, including bank loans, and bond issuance, to support its debt repayments and business operations. At end-June 2023, the company had unused credit facilities amounting to RMB3.1 billion.

Rating Sensitivities

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

We would consider upgrading CNUI's rating if there is an upgrade in our internal credit assessment on the Nanqiao 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 CNUI'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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