

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chongqing Tongda Investment Co., Ltd.

HONG KONG, 30 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chongqing Tongda Investment Co., Ltd. (“CTI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Zhong County, Chongqing Municipality (“Zhongxian government”) would provide strong support to CTI if needed, in light of its indirect full ownership of CTI, CTI’s strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction in Zhong County (“Zhongxian”), Chongqing Municipality (“Chongqing”), and the linkage between the Zhongxian government and CTI, 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 Zhongxian government may face significant negative impact on its reputation and financing activities if CTI encounters any operational and financial difficulties.

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

Key Rating Rationales

Zhongxian Government’s Ownership and Supervision: The Zhongxian government holds 100% ownership of CTI through the State-owned Assets Affairs Management Centre of Zhong County, and it is the ultimate controller of the company. The Zhongxian government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Zhongxian government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Zhongxian and Strategic Alignment: CTI, as the most important LIDC in Zhongxian, is mainly responsible for the infrastructure construction in Zhongxian, such as road, bridge and municipal facilities. The company is engaged in project construction, resettlement housing construction, sewage treatment, etc. CTI plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: CTI continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company’s strategic role in

the economic development of Zhongxian. In 2020-2022, CTI received subsidies totaling around RMB280.0 million. Meanwhile, CTI received asset and capital injections in the form of cash, buildings, equity transfers and other assets, totaling around RMB1.1 billion.

CTI's Financial and Liquidity Position: CTI's asset size grew moderately to RMB20.2 billion at end-2022 from RMB15.8 billion at end-2020, largely attributed to the increase of inventories. The company's financial leverage, as measured by debt/capitalization increased steadily from 48.2% to 54.3% over the same period. CTI's asset liquidity was weak, as it has large part of inventories and other account receivables. At end-2022, CTI had cash balance of RMB0.6 billion (including restricted cash of RMB0.3 billion), compared with its debt due within one year of about RMB3.0 billion. Nevertheless, the company has access to various financing channels, including bank borrowings, bond issuance and other non-traditional financing to support its debt repayments and business operations. At end-2022, the company had unused bank facilities of RMB1.3 billion.

Economy and Fiscal Condition of Zhongxian: Zhongxian is a county directly under the jurisdiction of Chongqing, and located in the center of Chongqing. Zhongxian's economy has maintained medium to high growth in recent years, and its GDP reached RMB50.8 billion in 2022, representing a year-over-year (y-o-y) growth rate of 4.1%.

The Zhongxian government's budgetary revenue increased steadily in the past three years with growth rates of 3.0%, 5.8% and 14.2% in 2020, 2021 and 2022, respectively. The tax revenue accounted for 47.4% of the budgetary revenue in 2022, downed from 70.5% in 2021 and 67.3% in 2020 as a result of the tax-advantaged policies. The fiscal self-sufficiency rate of the Zhongxian government was low (31.6% in 2022), hence it continuously received a certain number of subsidies from higher government authorities. Given the Zhongxian government borrowed heavily in special purpose debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 144.1% at end-2022 from 94.0% at end-2020.

Rating Sensitivities

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

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