

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

HONG KONG, 23 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Feicheng City Urban Investment Holding Group Co., Ltd. (“FCUI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Feicheng district (“the Feicheng government”) would provide very strong support to FCUI if needed. This mainly considers the Feicheng government’s full ownership of FCUI, FCUI’s strategic importance as an important local investment and development company (“LIDC”) responsible city development and operation in Feicheng, the strong linkage between the Feicheng government and FCUI. In addition, the Feicheng government may face significant negative impact on its reputation and financing activities if FCUI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Feicheng government holds 100% equity of FCUI through the Feicheng State-owned Assets Operation Center (“the Feicheng SAOC”) and is the company’s ultimate controller. The local government has strong control over the company, including the appointment of senior management and supervision of 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: FCUI is the largest LIDC in terms of asset size in Feicheng. The company provides essential public service (heat supply) and undertakes key projects within the region. It has also diversified into coal trading and sales of sand, grain and oil as well as other bulk commodities. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Feicheng government provides ongoing support to FCUI. The local government injected RMB26.7 billion worth of capital and assets, including cash, mineral resources, properties and equity of local SOEs, into FCUI between 2020 and the first nine months of 2023. Over the same period, the company also received operational subsidies amounting to RMB281 million to support FCUI’s operations. We expect FCUI to

receive ongoing support from the local government in the coming years considering its strategic importance in Feicheng.

Economy and Fiscal Condition of Feicheng: Feicheng is a county-level city directly under the jurisdiction of Shandong Province and managed by Tai'an on behalf of Shandong Province. It is located in the center of Shandong Province and west of Tai'an. Feicheng is a time-honored city with abundant tourism resources and cultural sites.

Feicheng was ranked 55th on the list of Top 100 Counties in China in 2022, with relatively strong economic and financial strength. Feicheng's economy has maintained steady growth in the past three years. Its GDP reached RMB82.7 billion in 2022, representing a year-over-year growth rate of 5.3%. Both was ranked 1st among the nine jurisdictions of Tai'an. Its economic development focused on special metal materials, new energy, high-end chemicals, construction and installation and modernize food industry in recent years.

The Feicheng government's budgetary revenue increased steadily in the past three years with growth rates of 1.1%, 9.4% and 14.9% in 2020, 2021 and 2022, respectively. The improvement of budgetary revenue has in turn helped to mitigate the budget deficit, which slightly improved to 47.6% in 2022 from 48.4% in 2020. However, as another important component of the aggregate revenue, the government-managed fund (mainly generated by the land concession revenue) decreased to RMB1.6 billion in 2022 from RMB3.3 billion in 2020, mainly due to the real estate market downturn.

The outstanding debt of the Feicheng government continued to grow, as it borrowed heavily in special debts to support its public projects. At end-2022, the Feicheng government's outstanding debt reached RMB8.1 billion, up from RMB5.3 billion at end-2020. Feicheng's government debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 88.1% from 56.0% over the same period.

FCUI's Financial and Liquidity Position: FCUI's asset size grew rapidly to RMB38.3 billion at end-September 2023 from RMB8.4 billion at end-2020, largely attributed to a series of asset allocations and capital injections from the local government. Correspondently, the company's financial leverage, as measured by debt/capitalization, has maintained at a low level of 10-15% since 2021. However, FCUI's asset quality was weak, as intangible assets, valued at RMB20.5 billion, accounted for more than 50% of the company's total asset at end-September 2023. The intangible assets mainly included income rights of river sand and rock resources allocated from the local government in 2021. Yet these assets only brought limited revenue and profit to the company in the past two years.

FCUI's liquidity was relatively tight. At end-September 2023, the company had cash of RMB517 million (including restricted cash of RMB181 million), compared to debt due within one year of RMB1.5 billion. Nevertheless, FCUI has access to various financing channels, including bank borrowings, bond issuances, and other non-traditional financings, to support its debt repayments and business operations. At end-September 2023, the company had unused credit lines of RMB1.8 billion.

Rating Sensitivities

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

We would consider upgrading FCUI's rating if there is an upgrade in our internal credit assessment on 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 methodology used in this FCUI'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.

Contact Information

Primary Analyst
Sigmund Jiang, CFA, CESGA
Analyst
(852) 3462 9587
sigmund.jiang@lhratingsglobal.com

Secondary Analyst
Roy Luo, FRM, CESGA
Associate Director
(852) 3462 9582
roy.luo@lhratingsglobal.com

Committee Chairperson
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi, CESGA
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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