

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

HONG KONG, 24 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Tengzhou Xinhua Investment Group Co., Ltd. (“TZXH” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Tengzhou Government’s Ownership and Supervision: The Tengzhou government holds 98.65% shares of TZXH via Tengzhou State-owned Assets Supervision and Administration Bureau (“Tengzhou SASAB”), and is the ultimate controller of TZXH. The Tengzhou 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 Tengzhou government formulates 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: As the most important LIDCs in Tengzhou, TZXH is mainly responsible for affordable housing development and infrastructure construction in Tengzhou. TZXH is mainly engaged in affordable housing construction, commodity property development and infrastructure construction services in Tengzhou. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Tengzhou government provided strong ongoing support to TZXH. The Tengzhou government allocated equities of several LIDCs in the region to TZXH

in the past few years. Between 2020 and the first half of 2023, the company received operational subsidies and funds amounting to RMB2.8 billion to support TZXH's activities in relation to providing public goods. We expect TZXH to receive ongoing support from the Tengzhou government in the coming years considering its strategic importance in Tengzhou.

TZXH's Financial and Liquidity Position: The total assets of TZXH increased moderately from RMB36,562 million at end-2020 to RMB37,524 million at end-June 2023, which was mainly due to the increase in inventory and cash. The total liabilities of TZXH increased to RMB26,138 million at end-June 2023 from RMB25,378 million at end-2020, and the financial leverage (total liabilities to assets) of TZXH stayed at c. 69.0% in the past few years. The total debts of the company increased to RMB10,194 million at end-June 2023 from RMB9,117 million at end-2020. The total debt capitalization ratio and long-term debt capitalization ratio increased slightly to 47.2% and 40.9% at end-June 2023, respectively.

The liquidity of TZXH was moderate. At end-June 2023, TZXH had cash on hand of RMB2.0 billion (including restricted cash of RMB652 million), compared to its non-current debts due within one year of RMB2,313 million. Moreover, the company also has sufficient access to financing channels, including bank borrowings, and bond issuances to satisfy its obligations. In addition, TZXH had unused bank credit line of RMB1.6 billion at end-June 2023.

Economy and Fiscal Condition of Tengzhou: Tengzhou is a county-level city directly under the jurisdiction of Shandong Province and managed by Zaozhuang City ("Zaozhuang") on behalf of Shandong Province. Tengzhou's GDP growth rate fluctuated in the past three years, which reached 1.0%, 8.5% and 4.2% in 2020, 2021 and 2022, respectively. The GDP of Tengzhou reached RMB90.1 billion in 2022, which was ranked 1st among all jurisdictions of Zaozhuang.

The aggregate fiscal revenue of the Tengzhou government is mainly derived from budgetary revenue and government fund income. The budgetary revenue increased modestly from RMB5.6 billion in 2020 to RMB6.4 billion in 2022. The fiscal self-sufficiency rate of the Tengzhou government was moderate but remained weak, and the budget deficit widened to 63.9% in 2022 from 39.4% in 2020. The Tengzhou government's total debts surged to RMB19.0 billion at end-2022 from RMB15.0 billion at end-2020. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Tengzhou government increased from 84.3% to 95.3% over the same period.

Rating Sensitivities

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

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