

China Investments Holdings Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 November 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to China Investments Holdings Ltd. (“CIH” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Nanhai District, Foshan City (“Nanhai government”) would provide strong support to CIH if needed, in light of its indirect majority ownership of CIH, CIH’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for wellness elderly care, industrial park construction and financial leasing in Nanhai District, Foshan City (“Nanhai”), and the linkage between the Nanhai government and CIH, including supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Nanhai government may face significant negative impact on its reputation and financing activities if CIH encounters any operational and financial difficulties.

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

Rating Rationale

Nanhai Government’s Ownership and Supervision: The Nanhai government indirectly holds the majority ownership of CIH via the Nanhai State-owned Assets Supervision and Administration Bureau’s (“Nanhai SASAB”) 90% owned Guangdong Nanhai Holding Group Co. Ltd. (“GNHG”), and is the actual controller of the company. The Nanhai government does not directly participate in the company’s daily operations, yet it provides support and guidance on significant matters such as guiding the reform and restructuring of the company, increasing and preserving the value the company’s state-owned assets, promoting the optimal allocation of state-owned assets. CIH has a non-executive director appointed by the Nanhai government through GNHG, who exercises supervisory functions on the board of directors. In addition, the Nanhai government has assessment mechanism over the company and board of directors, and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Nanhai and Strategic Alignment: CIH plays an important role in promoting Nanhai’s regional economic development and local residents’ livelihoods, as well as social services, by engaging in businesses like elderly care, new energy industry park development and services, financing leasing, and big data in the region. Its business operation and development have been aligned with the government’s development plans. Being the sole Hong Kong-listed company controlled by the Nanhai government, CIH also plays a significant role as the Nanhai government’s exclusive overseas investment and financing platform.

Ongoing Government Support: CIH received operational and financial support from the government. It received a subsidy totaling around RMB325.1 million from 2020 to the first six months of 2023 and special support funds from the Nanhai government to aid in its industrial park development and big data initiatives. In addition, the Nanhai government has implemented related policies to ensure the financial security, tax benefits, and other support

Key Figures of Nanhai and CIH

	2021	2022
Nanhai (RMB billion)		
GDP	356.1	373.1
GDP growth rate (%)	8.8	2.2
Budgetary revenue	26.7	25.8
Government fund	43.1	18.4
Transfer payment	6.5	6.4
Budgetary expenditure	28.9	26.9
CIH (HKD billion)		
Assets	2022	2023.6
Equity	9.1	9.6
Revenue	2.1	1.9
	11.6	6.4

Source: Public information, CIH and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

for CIH's elderly care business. Given that it is the key entity for elderly care and industrial development in Nanhai, CIH has an advantage in acquiring related resources and major projects. We believe CIH is likely going to receive government support, including operational subsidies, tax breaks and favorable policies to support its daily business operation.

CIH's Financial Matrix and Liquidity Position: CIH's total assets showed a continuous growth trend in the past years and reached HKD9.6 billion at end-June 2023, mainly due to the increase of finance lease receivables. Non-current assets accounted for 72.4% of total assets at end-June 2023, while the overall asset liquidity was moderate, with 45.8% of CIH's assets being pledged to secure bank loans and general banking facilities. CIH's financial leverage (total liabilities to total assets) was 79.5% and its adjusted debt increased to HKD6.8 billion at end-June 2023. Liquidity was sufficient as CIH had a cash balance and unused credit facilities of HKD1.3 billion and HKD3.5 billion, respectively, compared with its debt due within one year of HKD2.2 billion at end-June 2023. Besides, CIH has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Nanhai: Nanhai is a district located in Foshan City, Guangdong Province ("Foshan"), with a total land area of 1,072 square kilometers. Nanhai recorded an economic growth in 2022, achieving a GDP of RMB373.1 billion, with a year-on-year growth of 2.2%. Nanhai's economy is well-developed and was ranked 10th among China's Top 100 Districts and 2nd among the five districts in Foshan in 2022.

The aggregate fiscal revenue of the Nanhai government was mainly derived from the budgetary revenue and government fund income. The Nanhai government's budgetary revenue decreased to RMB25.8 billion in 2022 due to the large-scale value-added tax refund policy to support the economy. The government fund income is mainly generated by land-use right transfers, which decreased substantially to RMB18.4 billion in 2022, compared with RMB43.1 billion recorded in 2021. The fiscal self-sufficiency of the Nanhai government was relatively strong. Its budget deficit narrowed to 4.0% in 2022 from 8.6% in 2021. However, its government debt increased significantly to RMB61.8 billion at end-2022 from RMB50.3 billion at end-2021, mainly due to the increase in special debt to support a series of major projects.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Nanhai

Nanhai is a municipal district of Foshan City. It has a total land area of 1,072 square kilometers and a residential population of c. 3.7 million. The urbanization rate was 96.1% at end-2021. Nanhai's economy is well-developed and was ranked 10th among China's Top 100 Districts and 2nd among the five districts in Foshan in 2022. This was benefited from the

continuous optimization of its industrial structure by introducing “two high and four new industries” (i.e., high-tech manufacturing and high-quality service industries, as well as new energy, new materials, new generation of IT and new biomedical industries). Nanhai also fully participates in developing the Guangzhou-Foshan city integration and Guangdong-Hong Kong-Macao Greater Bay Area.

Nanhai realized a GDP of RMB373.1 billion in 2022, representing a year-over-year growth rate of 2.2%. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 53.8% and 44.4% of Nanhai’s aggregate GDP, respectively, in 2022. Its fixed asset investment growth rate fell to -1.0% in 2022 from 10.5% in 2021, mainly due to the slump in property investment.

Nanhai’s GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	312.0	356.1	373.1
-Primary industry (%)	1.6	1.7	1.8
-Secondary industry (%)	52.7	53.6	53.8
-Tertiary industry (%)	45.7	44.7	44.4
GDP growth rate (%)	0.7	8.8	2.2
Fixed asset investment	130.3	143.9	142.5
Fixed asset investment growth rate (%)	9.8	10.5	-1.0
Population (million)	3.7	3.7	3.7

Source: Public information and Lianhe Global’s calculations

Fiscal Condition of Nanhai

The Nanhai government’s budgetary revenue decreased to RMB25.8 billion in 2022 from RMB26.7 billion in 2021, due to the large-scale value-added tax refund policy to support the economy. Moreover, the contribution of the tax revenue decreased to 55.9% from 68.7% over the same period.

The aggregate revenue of the Nanhai government heavily relied on the government fund income, which is mainly generated by land-use right transfers. Owing to the weak property market, Nanhai’s government fund income decreased substantially to RMB18.4 billion in 2022, compared with RMB43.1 billion in 2021.

The fiscal self-sufficiency of the Nanhai government was relatively strong. Its budget deficit narrowed to -4.0% in 2022 from -8.6% in 2021. However, its government debt increased significantly to RMB61.8 billion at end-2022 from RMB50.3 billion at end-2021, mainly due to the increase in special debt to support a series of major projects.

Nanhai’s Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	24.8	26.7	25.8
Budgetary revenue growth rate (%)	1.0	7.5	0.6*
Tax revenue	17.4	18.3	14.4
Tax revenue (% of budgetary revenue)	70.1	68.7	55.9
Government fund income	44.7	43.1	18.4
Transfer payment	7.5	6.5	6.4
Aggregate revenue	77.2	76.5	50.8
Budgetary expenditure	28.8	28.9	26.9
Budget balance¹ (%)	-16.1	-8.6	-4.0

¹ Budget balance = (1 - budgetary expenditure / budgetary revenue) * 100%

* Excluding the influence of value-added tax credit refund

Source: Finance Bureau of Nanhai District and Lianhe Global’s calculations

Ownership Structure

Government's Ownership

CIH was registered in Bermuda in 1992 and subsequently registered in Hong Kong in 1993. It was listed on the Hong Kong Stock Exchange the same year under the stock code 00132. The company's authorized share capital is 3 billion shares, with approximately 1.712 billion shares issued and a registered capital of HKD172 million.

CIH was majority owned and controlled (84.18%, including convertible bonds) by Glories Holdings (HK) Limited, a subsidiary of GNHG as of end-June 2023. 90% of GNHG's share was held by Nanhai SASAB, while the other 10% was held by Guangdong Finance Department. The Nanhai government is the actual controller of the company.

Strategic Importance and Government Linkage

Strategic Importance of CIH to Nanhai

CIH plays an important role in promoting Nanhai's regional economic development and local residents' livelihoods, as well as social services, by engaging in businesses like elderly care, new energy industry park development and services, financing leasing, and big data in the region. Its business operation and development have been aligned with the government's development plans. Being the sole Hong Kong-listed company controlled by the Nanhai government, CIH also plays a significant role as the Nanhai government's exclusive overseas investment and financing platform.

Strong Linkage with the Local Government

CIH's linkage with the local government is strong as the Nanhai government indirectly holds the majority ownership of CIH through Nanhai SASAB's 90% owned GNHG, and is the actual controller of the company. The Nanhai government does not directly participate in the company's daily operations, yet it provides support and guidance on significant matters such as guiding the reform and restructuring of the company, increasing and preserving the value the company's state-owned assets, promoting the optimal allocation of state-owned assets.

CIH has a non-executive director appointed by the Nanhai government through GNHG, who exercises supervisory functions on the board of directors. In addition, the Nanhai government has assessment mechanism over the company and board of directors, and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Government Support

CIH continued to receive financial subsidies, mainly including operating subsidies and tax breaks, from the local government to maintain its business operation. CIH received subsidies of RMB150.4 million, RMB115.9 million, RMB58.0 million and RMB0.8 million in 2020, 2021, 2022 and the first six months of 2023, respectively. Besides, the vast majority of assets in the elderly care sector of CIH were provided by the government free of charge. According to the operational management agreement, the usage period is 40 years, ensuring a sustainable support framework over an extended period. The company also received special support funds from the Nanhai government to aid in its industrial park development and big data initiatives.

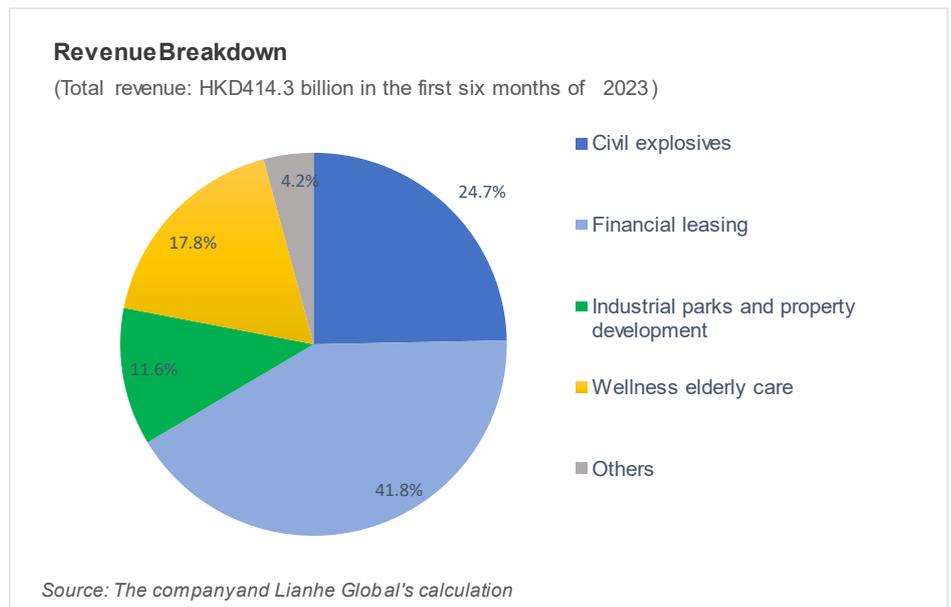
The Nanhai government has implemented related policies to ensure the financial security, tax benefits, and other support for CIH's elderly care business. Given that it is the key entity for elderly care and industrial development in Nanhai, CIH has an advantage in acquiring related resources and major projects. We believe CIH is likely going to receive government support, including operational subsidies, tax breaks, favorable policies and other kind of government grants to support its daily business operation.

Business Profile

The Key Platform Responsible for Regional Economy Development, People's Livelihoods, and Social Services

CIH's business mainly focuses on industrial parks and property development, property investments, wellness elderly care business, financial leasing and other businesses like hotel operation, big data and civil explosives business within Nanhai. It holds a certain degree of monopoly in these businesses within the region.

The main sources of operating revenue for CIH are financial leasing, civil explosives and wellness elderly care. The company's total revenue reached HKD293.6 million, HKD520.8 million, HKD767.6 million and HKD414.3 million in 2020, 2021, 2022 and the first six months of 2023, respectively. The gross profit was stable at 37.8%-39.4% from 2021 to the first six months of 2023.



Elderly Care and Wellness

The elderly care and wellness business is mainly operated by CIH's subsidiary, Guangdong Taoyuan Comprehensive Health Operation Company Limited, which has effectively consolidated public elderly care resources in Nanhai and is comprehensively engaged in constructing an inclusive elderly care system in the region, including providing institutional elderly care, home-based care, community-based care, and elderly care information technology systems for the government.

The primary revenue sources for this segment are split equally between the welfare center's elderly care services and the medical services from the rehabilitation hospital. CIH realized

income from elderly care and wellness business of HKD77.6 million, HKD122.5 million and HKD73.7 million in 2021, 2022 and the first six months of 2023, respectively. It managed 2,200 elderly care beds (the largest in Nanhai) with a 79% occupancy rate as of end-June 2023. Additionally, their rehabilitation and nursing beds have seen an 8% rise in utilization, totaling 300 beds. Despite being in an early investment phase, the elderly care sector has shown a trend to breakeven, although some sub-districts are operating at a deficit.

The company is currently focusing on developing elderly care and rehabilitation facilities in Nanhai, with projects including senior apartments, the renovation of the Disabled Persons' Federation building, and the construction of the rehabilitation hospital. These initiatives are part of a substantial investment totaling around HKD1.2 billion, indicating a relatively high capital expenditure. Considering the significant elderly population in Nanhai, there's a growing demand for elderly care services. With the Nanhai government's increasing financial support and strategic adjustments, the segment's scale and performance are expected to improve in the future, given its alignment with the broader trend of integrating medical and elderly care services in the region.

Industrial Parks and Property Development

The industrial parks and property development business is mainly operated by CIH's subsidiary, Guangdong Sino Rock Tyco Construction Co., Limited. It primarily handles the construction of the Nanhai Danzao Industrial Park ("Danzao"), encompassing the Nanhai New Energy Industrial Park and supporting facilities. Serving as the main entity for the construction of Danzao, it focuses on advancing key projects such as Phase Three of the Nanhai Danzao SME Park, Danqinyuan Rental Housing Project and so on. The company shoulders a crucial role in aggregating innovation resources and nurturing emerging industries in Nanhai, fostering the development of the hydrogen energy industry chain.

The main revenue source of this segment comes from industrial park leasing income, which reached HKD30.8 million, HKD82.3 million and HKD48.0 million in 2021, 2022 and the first six months of 2023. The projects are financed through fixed asset project financing and equity investments from CIH. Following the completion and joint acceptance of the Danqinyuan project, the total area of Danzao has reached approximately 398,700 square meters, including the first and second phases. The leased areas of the first and second phases have reached about 171,700 square meters and 58,500 square meters, respectively, with occupancy rates of approximately 93% and 53% as of end-June 2023. Having said that, the operating profit of this segment decreased by 9.3% compared to the previous year due to reduced subsidy income from the government. Despite this, the future outlook remains optimistic as the rental rates are expected to continue growing with the ongoing projects and initiatives.

Financial Leasing

The financial leasing business is mainly operated by CIH's subsidiary, Canton Greengold Financial Leasing Ltd., the largest financial leasing company in Foshan under state-owned capital and the sole leasing platform under the supervision of Nanhai SASAB. The company focuses its leasing services primarily on local infrastructure, public utilities, leading national municipal environmental projects, and high-end equipment manufacturing industries. A significant portion of their exposures, around 52.86% as of end-June 2023, was concentrated in the municipal environmental sector, particularly in wastewater treatment. It engages with around 48 state-owned enterprises in Nanhai and the Greater Bay Area, fortifying their role as a vital financial partner in regional development initiatives.

The revenue generated from this segment (mainly from leasing interest and consultancy fees) reached HKD216.1 million, HKD330.5 million and HKD173.0 million in 2021, 2022 and the first six months of 2023, representing a large proportion of the total revenue with a stable gross profit margin consistently above 50%. The company has implemented rigorous risk management strategies, including systematic asset management, regular inspections, and comprehensive risk prevention protocols, to ensure the safety of the underlying assets. There were three borrowers subject to impairment risk (total amount: around HKD52 million) as of end-June 2023. However, due to the high security level of their underlying assets, the overall recovery rate is manageable and the company's overall ability to recover losses is under control.

Other Operational Businesses

In addition to the businesses above, the company also operates other businesses including government-subsidized big data business, civil explosives business, hotel operation and property investment, making the company's income structure more diversified while forming a better complement to the company's overall income.

Financial Profile

Balance Sheet Structure and Quality

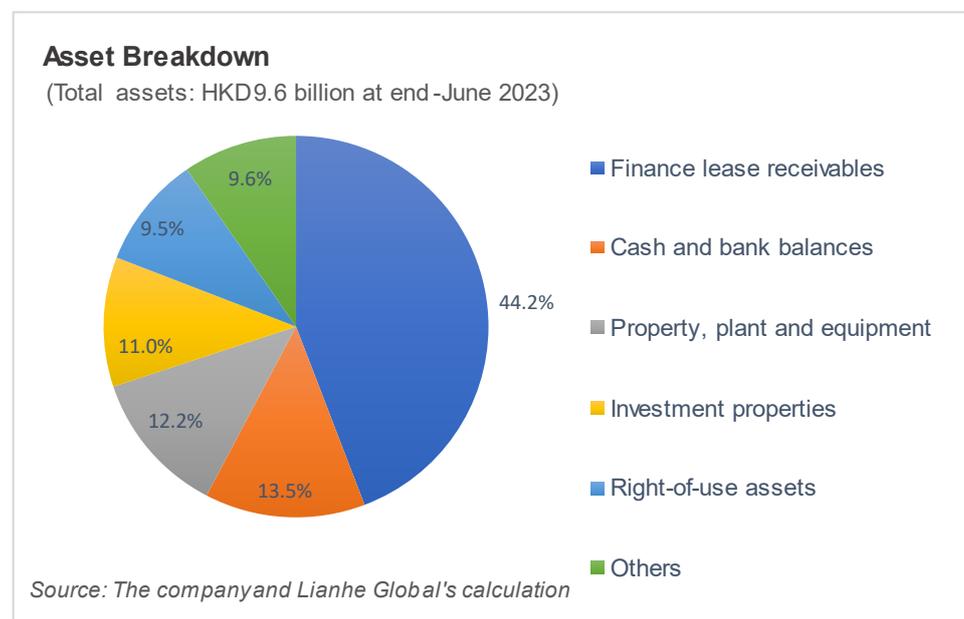
Balance Sheet Structure and Quality				
(HKD million)	2020	2021	2022	2023.6
Total Asset	6,105	8,300	9,070	9,618
Equity	1,988	2,192	2,093	1,974
Debt	3,649	5,372	6,153	6,841
Debt / (Debt + Equity) (%)	64.7	71.0	74.6	77.6
LT Debt	2,348	3,709	4,178	4,677
LT Debt / (LT Debt + Equity) (%)	54.1	62.8	66.6	70.3

Source: Company information and Lianhe Global's calculations

CIH's total assets showed a continuous growth in the past few years, with a growth rate of 35.9%, 9.3% and 6.0% in 2021, 2022 and first six months of 2023, respectively, and reached HKD9.6 billion at end-June 2023. The increase of CIH's total assets was largely due to the financial lease receivables, which have steadily increased in tandem with the expansion of the company's financial leasing business. CIH's assets mainly consisted of finance lease receivables, cash and bank balance and investment properties. CIH had large proportion of non-current assets (72.4% at end-June 2023), and overall asset liquidity was moderate, primarily due to the significant proportion of receivables and fixed assets.

Finance lease receivables, as the largest portion of CIH's assets, reached HKD4.3 billion at end-June 2023, with the majority being non-current assets, accounting for 72% of the total. The allowance for expected credit loss was approximately 1.5% of total receivables at end-June 2023, which remained relatively low due to the high security of the underlying assets in the financing leases and the relatively low credit risk of the counterparties (mainly state-owned enterprises in Nanhai). Approximately 56% of the finance lease receivables were expected to be collected within two years, and the duration for the overall outstanding receivables were relatively short. The investment properties reached HKD1.1 billion at end-June 2023, the majority of which was held to earn rentals.

A large amount of CIH's asset has been pledged to secure bank loans and general banking facilities, including finance lease receivables, property, plant and equipment and investment properties, amounted to HKD4.4 billion at end-June 2023. The pledged asset accounted for 45.8% of its total assets at end-June 2023, which may limit the company's financial flexibility.



CIH's financial leverage (total liabilities to assets) reached 64.7%, 73.6%, 76.9% and 79.5% at end-2020, end-2021, end-2022 and end-June 2023 respectively, representing an upward trend. We expect the financial leverage of the company will remain at this level, given the limit set from the Naihai government. CIH's total adjusted debt increased moderately from HKD5.4 billion at end-2021 to HKD6.8 billion at end-June 2023, with short-term debt accounting for 31.6% of the total debt. The total debt ratio and long-term debt ratio increased to 77.6% and 70.3% at end-June 2023, respectively. There was no significant change in the ownership equity structure of CIH at end-June 2023, compared with that at end-2020. CIH mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its industrial park and elderly care related projects under construction and to be constructed in the future.

Debt Servicing Capability

The liquidity of CIH was sufficient. At end-June 2023, CIH had a cash balance and unused credit facilities of HKD1.3 billion and HKD3.5 billion, compared with its debt due within one year of HKD2.2 billion. The majority of the bank loans were liquidity loans, which can be rolled over without credit cut given the good reputation and stable operation of CIH in the region. Besides, CIH has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

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