

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jining City Development Capital Holdings Co., Ltd.

HONG KONG, 12 December 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Jining City Development Capital Holdings Co., Ltd. (“JCDCH” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Rencheng Government’s Ownership and Supervision: The Rencheng government holds the full ownership of JCDCH through Rencheng Finance Bureau (“Rencheng FB”), and it is the ultimate controller of the company. The Rencheng government has the final decision-making authority and supervision over the company, including management appointments, decisions on its strategic development and investment plans and supervision of its major funding decisions. In addition, the Rencheng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Rencheng and Strategic Alignment: JCDCH, an important LIDC in Rencheng, is mainly responsible for the construction and operation of industrial parks as well as trading and agent construction businesses within the Jining Canal Economic Development Zone (“JCEDZ”). It 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: JCDCH continued to receive financial subsidies and asset/capital injections from the Rencheng government to support its business operations. We believe the government support will remain intact given the company’s strategic role in the

economic development of Rencheng. In 2020-2022, JCDCH received subsidies totaling around RMB170 million. Meanwhile, JCDCH received asset and capital injections in the form of cash, buildings, equity transfer, properties, etc., reaching around RMB3.6 billion during the same period.

JCDCH's Financial and Liquidity Position: JCDCH's total assets showed a strong growth in the past few years, with a growth rate of 177.6% and 136.7% in 2021 and 2022, respectively, and reached RMB11.0 billion at end-September 2023. The increase of JCDCH's total assets was largely due to the increase in other non-current assets. JCDCH's financial leverage (total liabilities to assets) was at a moderately low level in the past few years, which increased to 25.0% at end-September 2023 from 3.0% at end-2020. We expect JCDCH to continue to rely on external financing to support its capital expenditures and debt repayments.

The liquidity of JCDCH was tight. At end-September 2023, JCDCH had unrestricted cash balance and unused credit facilities of RMB110.1 million and RMB0.4 million, respectively, compared with its debt due within one year of RMB1,147.3 million. In addition, JCDCH's financing channel has concentrated in bank loans. Therefore, JCDCH needs to successfully roll over its short-term bank borrowings and obtain additional funding channels or government support to maintain its liquidity.

Economy and Fiscal Condition of Rencheng: Rencheng is the main urban district of Jining, Shandong Province, and is also the political, economic and cultural center of Jining. Rencheng's economic growth fluctuated in the past years, with GDP growth rates at 2.6%, 8.1% and 3.6%, respectively, in 2020, 2021 and 2022. Rencheng's GDP reached RMB61.3 billion in 2022, and was ranked the 2nd among all districts and county-level cities under the administration of Jining.

The Rencheng government's aggregate fiscal revenues are mainly derived from budgetary revenue. The Rencheng government's budgetary revenue decreased to RMB7.1 billion in 2022 from RMB7.5 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. The financial self-sufficiency rate of Rencheng was relatively high and it recorded a budget surplus of 9.6% in 2022. On the other hand, Rencheng's government fund income and transfer payment were relatively volatile in the past years, recorded at RMB0.3 billion and RMB9.4 billion in 2022, respectively. The debt ratio, as measured by the total government debt/aggregate revenue, was lifted to 106.8% in 2022 from 82.7% in 2021, mainly due to the increase in special debt.

Rating Sensitivities

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

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