

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Xiangyin Hengyuan New Energy Development Co., Ltd.**

HONG KONG, 28 December 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Xiangyin Hengyuan New Energy Development Co., Ltd. (“XHNE” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Xiangyin government is the ultimate controller of XHNE via the Finance Bureau of Xiangyin and Hunan Yangshahu Investment Holding Group Co., Ltd. The Xiangyin government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Xiangyin 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 a key LIDC in Xiangyin, XHNE is mainly responsible for the construction and management of industrial parks and other infrastructure projects within the region. The primary sources of operating revenue for XHNE are engineering construction, sewage treatment and property management. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

**Ongoing Government Support:** The Xiangyin government provided ongoing support to XHNE. The company has had a stable track record of receiving subsidies of RMB40 million

annually from the Xiangyin government every year since 2021. Besides, the company received a series of asset injections and equity allocations from the Xiangyin government in 2023. We expect XHNE to receive ongoing support from the Xiangyin government in the coming years considering its strategic importance in Xiangyin.

***Economy and Fiscal Condition of Xiangyin:*** Xiangyin is a county under the jurisdiction of Yueyang City, Hunan Province. At end-2022, Xiangyin had a resident population of c. 0.6 million, with an urbanization rate of 54.3%. Xiangyin's economic growth remained stable in recent years, and its GDP amount reached c. RMB40.1 billion in 2022, representing a year-over-year growth rate of 6.5%.

The aggregate fiscal revenue of the Xiangyin government was mainly derived from the government fund income and transfer payment from higher government. The Xiangyin government's budgetary revenue remained relatively stable in the past three years, with its tax revenue accounting for 34%-41% of its budgetary revenue. The fiscal self-sufficiency rate of the Xiangyin government was insufficient, and it recorded a budget deficit of 86.7% in 2022. In addition, the government fund income had decreased to RMB3.3 billion in 2022 from RMB4.7 billion in 2020, mainly due to the weak property market.

The outstanding debt of the Xiangyin government continued to grow. At end-2022, the Xiangyin government's outstanding debt was RMB6.3 billion, including RMB4.0 billion of general obligations and RMB2.3 billion of special debt. Since the Xiangyin government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 67.8% at end-2022 from 42.9% at end-2020.

***XHNE's Financial and Liquidity Position:*** XHNE's asset size grew rapidly to RMB9.2 billion at end-September 2023 from RMB0.8 billion at end-2020, largely attributed to the asset injections and equity allocations from the Xiangyin government. As a result, the company's financial leverage, as measured by debt/capitalization, decreased sharply from 68.5% at end-2022 to 29.2% at end-September 2023. The company intends to maintain the current financial leverage level by receiving further asset injection from the local government in the future.

XHNE's liquidity was tight. At end-September 2023, the company had cash of RMB361 million (restricted cash of RMB332 million), while it had short-term debt of RMB626 million. The company has access to various financing channels, including bank borrowings, to support its debt repayments and business operations. Besides, it also had unused bank line of RMB141 million at end-September 2023.

## **Rating Sensitivities**

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

We would consider upgrading XHNE's rating if there is an upgrade in our internal credit assessment on the Xiangyin 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 XHNE'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](http://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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