

# Hunan Ruixin Industrial Operation Management Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	21 December 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hunan Ruixin Industrial Operation Management Co., Ltd. (“HRIOM” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yuanjiang City (“Yuanjiang government”) would provide very strong support to HRIOM if needed, in light of its 90% ownership of HRIOM, HRIOM’s strategic importance as an important local investment and development company (“LIDC”) responsible for state-owned assets operation and investment in Yuanjiang City (“Yuanjiang”), and the linkage between the Yuanjiang government and HRIOM, 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 Yuanjiang government may face significant negative impact on its reputation and financing activities if HRIOM encounters any operational and financial difficulties.

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

### Rating Rationale

**Yuanjiang Government’s Ownership and Supervision:** The Yuanjiang government holds 90% ownership of HRIOM through Yuanjiang State-owned Asset Affairs Center (“YSAAC”) and Hunan Yuanjiang Qionghu Investment Construction Development Group Co., Ltd. (“HYQI”). The Yuanjiang government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Yuanjiang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

**Strategic Importance to Yuanjiang and Strategic Alignment:** HRIOM, as an important LIDC in Yuanjiang, is mainly responsible for the state-owned assets operation and investment within the region, with a strong regional franchise advantage. The company is engaged in gravel sales, property leasing, property management, funeral services and other businesses. HRIOM 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:** HRIOM continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company’s strategic role in the economic development of Yuanjiang. HRIOM received subsidies totaling RMB0.76 million from 2020 to the first nine months in 2023. Meanwhile, HRIOM received asset and capital injections in the form of cash, buildings, equity transfers and other assets, totaling about RMB3,933.9 million over the same period.

**HRIOM’s Financial and Liquidity Position:** HRIOM’s asset size grew to RMB17.3 billion at end-September 2023 from RMB13.1 billion at end-2020, which was largely attributed to

### Key Figures of Yuanjiang and HRIOM

(RMB billion)	2021	2022
<b>Yuanjiang</b>		
GDP	29.2	30.0
GDP growth rate (%)	8.3	2.3
Budgetary revenue	1.2	1.3
Government fund	1.1	1.5
Transfer payment	3.7	3.2
Budgetary expenditure	5.0	5.5
<b>HRIOM</b>	<b>2022</b>	<b>2023.9</b>
Assets	16.5	17.3
Equity	14.3	14.6
Revenue	1.0	1.0

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

### Analysts

Toni Ho, CFA, FRM  
 (852) 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Karis Fan, CESGA  
 (852) 3462 9579  
[karis.fan@lhratingsglobal.com](mailto:karis.fan@lhratingsglobal.com)

### Applicable Criteria

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

the increase of other receivables following the expansion of the scale of its gravel sales business. The assets liquidity of HRIOM was tight but improving, as the current assets accounted for 16.5% of total assets only at end-September 2023. HRIOM's dependence on debt financing was moderate but growing, the total debts climbed to RMB2,275 million at end-September 2023 from RMB250 million at end-2021. The liability to asset ratio, as measured by total liabilities over total assets, increased but remained low at 15.5% at end-September 2023 from 3.1% at end-2020.

The liquidity of HRIOM was moderately weak. At end-September 2023, HRIOM had unrestricted cash balance of RMB167.9 million, compared with its debt due within one year of RMB364.0 million. At the same time, the company had unused credit facilities of RMB2,328.8 million at end-September 2023. HRIOM's financing channel mainly concentrates in bank loans. Therefore, obtaining additional funding channels or government support would be crucial in maintaining its liquidity.

**Economy and Fiscal Condition of Yuanjiang:** Yuanjiang is a county-level city under the administration of Yiyang City and is located in northern Hunan Province. Lay in the south of Dongting Lake, Yuanjiang is a city featured with a land of fish and rice. The primary industry's contribution is significant to Yuanjiang's economy, representing 25.0% of its GDP in 2022. Yuanjiang is promoting its industrial development, focusing on the supply chain development of machinery manufacturing, shipbuilding, ecological and green food, textile and garment industries. However, its industrial-added value dropped by 1.7% in 2022. Yuanjiang's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.5%, 8.3% and 2.3% in 2020, 2021 and 2022, respectively. Yuanjiang's GDP reached c. RMB30.0 billion in 2022, and was ranked 3rd among six districts and counties under the jurisdiction of Yiyang. GDP per capita of Yuanjiang reached c. RMB 53,600 in 2022, lower than Hunan (c. RMB73,600) and China (c. RMB85,700).

The Yuanjiang government's budgetary revenue grew significantly to RMB1.3 billion in 2022 from 0.8 billion in 2020, representing a high compound annual growth rate of 33.9% ("CAGR"). However, the Yuanjiang government's budgetary revenue scale remained small, and its fiscal self-sufficiency capacity was weak, with a high budget deficit -301.5% in 2022. The outstanding debt of the Yuanjiang government continued to grow in the past three years and reached RMB6.1 billion at end-2022, up from RMB4.1 billion at end-2020, representing a CAGR of 21.7%. This was mainly due to the new issuance of special debts supporting Yuanjiang's project developments. As measured by the total government debt/aggregate revenue, the government debt ratio was lifted to 100.0% in 2022 from 64.8% in 2020.

### Rating Sensitivities

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

We would consider upgrading HRIOM's rating if there is an upgrade in our internal credit assessment on the Yuanjiang government.

## Operating Environment

### Economic Condition of Yuanjiang

Yuanjiang is a county-level city under the administration of Yiyang City and is located in northern Hunan Province. Yuanjiang has jurisdiction over ten towns, two streets and two wetland reserves, with a total area of 2,019.7 square kilometers. At end-2022, Yuanjiang had a resident population of c. 0.6 million, with an urbanization rate of 50.4%.

Lay in the south of Dongting Lake, Yuanjiang is a city featured with a land of fish and rice. The primary industry's contribution is significant to Yuanjiang's economy, representing 25.0% of its GDP in 2022. Yuanjiang is promoting its industrial development, focusing on the supply chain development of machinery manufacturing, shipbuilding, ecological and green food, textile and garment industries. However, its industrial-added value dropped by 1.7% in 2022.

Yuanjiang's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.5%, 8.3% and 2.3% in 2020, 2021 and 2022, respectively. Yuanjiang's GDP reached c. RMB30.0 billion in 2022, and was ranked 3rd among six districts and counties under the jurisdiction of Yiyang. GDP per capita of Yuanjiang reached c. RMB 53,600 in 2022, lower than Hunan (c. RMB73,600) and China (c. RMB85,700).

<b>Yuanjiang's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	27.0	29.2	30.0
-Primary industry (%)	25.5	23.9	25.0
-Secondary industry (%)	39.1	40.7	40.0
-Tertiary industry (%)	35.4	35.4	35.0
GDP growth rate (%)	3.5	8.3	2.3
Fixed asset investment growth rate (%)	9.6	13.6	27.5
Population (million)	0.57	0.56	0.56

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Yuanjiang

The Yuanjiang government's aggregate fiscal revenues are mainly derived from government fund income and transfer payments from the higher government, contributing to 16.3% and 71.7% of Yujiang government's aggregate revenue, respectively. The Yuanjiang government's budgetary revenue grew significantly to RMB1.3 billion in 2022 from 0.8 billion in 2020, representing a CAGR of 33.9%. However, the Yuanjiang government's budgetary revenue scale remained small, and its fiscal self-sufficiency capacity was weak, with a high budget deficit -301.5% in 2022.

The outstanding debt of the Yuanjiang government continued to grow in the past three years and reached RMB6.1 billion at end-2022, up from 4.1 billion at end-2020, representing a CAGR of 21.7%. This was mainly due to the new issuance of special debts supporting Yuanjiang's project developments. As measured by the total government debt/aggregate revenue, the government debt ratio was lifted to 100.0% in 2022 from 64.8% in 2020.

<b>Yuanjiang's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	0.8	1.2	1.3
Budgetary revenue growth rate (%)	3.7	59.7	12.2
Tax revenue	0.5	0.6	0.7
Tax revenue (% of budgetary revenue)	67.3	48.1	48.1

Government fund income	1.0	1.1	1.5
Transfer payment	4.6	3.7	3.2
<b>Aggregate revenue</b>	<b>6.4</b>	<b>6.0</b>	<b>6.1</b>
Budgetary expenditure	6.0	5.0	5.5
Budget balance <sup>1</sup> (%)	-688.7	-309.4	-301.5

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

HRIOM was established in April 2019 by HYQI with an initial registered capital of RMB10.0 million. After an array of capital injections, the company's registered capital and paid-in capital were RMB300.0 million and RMB10.0 million at end-September 2023, respectively. HYQI is the sole shareholder of the company, and the YSAAC is the actual controller of the company.

## Strategic Importance and Government Linkage

### Strategic Importance of HRIOM to Yuanjiang

HRIOM, as an important LIDC in Yuanjiang, is mainly responsible for the state-owned assets operation and investment within the region, with a strong regional franchise advantage. The company is engaged in gravel sales, property leasing, property management, funeral services and other businesses. HRIOM 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.

### Strong Linkage with the Local Government

HRIOM's linkage with the local government is strong as the Yuanjiang government holds 90% ownership of HRIOM through YSAAC and HYQI. The Yuanjiang government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Yuanjiang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

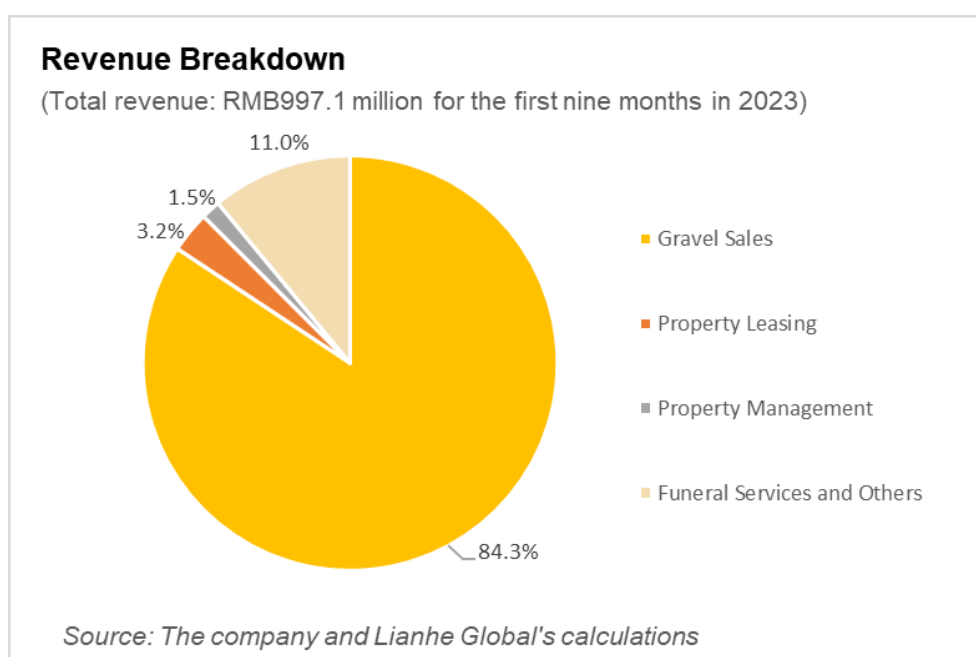
### Government Support

HRIOM continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company's strategic role in the economic development of Yuanjiang. HRIOM received subsidies totaling RMB0.76 million from 2020 to the first nine months in 2023. Meanwhile, HRIOM received asset and capital injections in the form of cash, buildings, equity transfers and other assets, which reached RMB359.7 million, RMB108.3 million, RMB2,119.7 million and RMB1,346.1 million in 2020, 2021, 2022 and the first nine months in 2023, respectively.

## Business Profile

### The Important Entity Responsible for State-Owned Assets Operation and Investment in Yuanjiang

HRIOM, as an important LIDC in Yuanjiang, is mainly responsible for the state-owned assets operation and investment within the region, with a strong regional franchise advantage. The primary source of operating revenue for HRIOM is gravel sales, while it also engages in property leasing, property management, funeral services and other businesses. The total revenue of HRIOM was RMB328.1 million, RMB776.1 million, RMB980.4 million and RMB997.1 million in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin showed a downward trend, decreasing from 38.3% to 35.6% over the same period.



### Gravel Sales

As the most important business segment of the company, the gravel sales business contributes the majority of total revenue. The company enjoys strong competitiveness in the market, as it is the sole gravel distributor approved by the Yuanjiang government in Yuanjiang. The company purchases the gravel products and sells them to building material companies. The income derived from this segment was RMB215.9 million, RMB645.5 million and RMB841.8 million in 2020, 2021 and 2022, respectively. The gross profit margin decreased to 35.7% from 40.1% over the same period.

### Property Leasing

HRIOM builds standardized and customized factories according to the market demand and the demand from enterprises, and collects rental income from these factories. The income derived from this segment was RMB33.0 million, RMB39.5 million and RMB40.2 million in 2020, 2021 and 2022, respectively. The gross margin was volatile, ranging between 15.7% and 28.9% over the same period.

## Property Management

HRIOM provides standardized property management services to the users of the affordable housing in the region. The income derived from this segment was RMB17.3 million, RMB18.9 million and RMB19.3 million in 2020, 2021 and 2022, respectively. The gross margin was high, changing between 79.2% and 100.0% over the same period.

## Funeral Services and Others

The company is also responsible for the development of the public funeral services in Yuanjiang. The revenue from funeral services and other businesses reached RMB62.0 million, RMB72.2 million and RMB79.3 million in 2020, 2021 and 2022, respectively. The gross margin of funeral services and other businesses was on an upward trend, increasing from 19.9% to 34.1% over the same period.

## Financial Profile

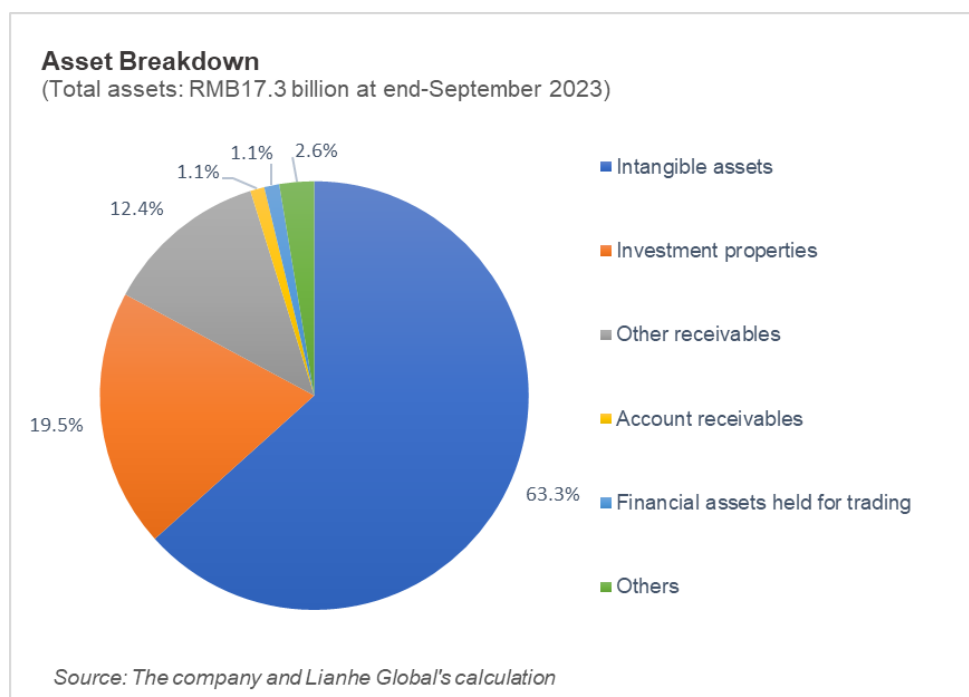
### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>					
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Sept 2023</b>	<b>Sept 2023 *(Adjusted)</b>
Total Asset	13,101	13,686	16,468	17,281	17,281
Equity	12,696	12,912	14,343	14,611	14,311
Debt	0	250	1,478	2,275	2,575
Debt / (Debt + Equity) (%)	-	1.9	9.3	13.5	15.3
LT Debts	0	0	964	1,911	2,211
LT Debt / (LT Debt + Equity) (%)	-	-	6.3	11.6	13.4

*\*Adjusted numbers and ratios reflect the other equity instruments relocating to long-term debt and total debt from equity*

*Source: Company information and Lianhe Global's calculations*

HRIOM's asset size grew to RMB17.3 billion at end-September 2023 from RMB13.1 billion at end-2020, which was largely attributed to the increase of other receivables following the expansion of the scale of its gravel sales business. The assets liquidity of HRIOM was tight but improving, as the current assets accounted for 16.5% of total assets only at end-September 2023. Other receivables constituted most of the current assets. On the other hand, the non-current assets contributed 83.5% of the total assets at end-September 2023, which was mainly consisted of the intangible assets and investment properties.



HRIOM's dependence on debt financing was moderate but growing, the total debts climbed to RMB2,275 million at end-September 2023 from RMB250 million at end-2021, with the long-term debts increased from RMB964.5 million at end-2022 to RMB1,911 million at end-September 2023. The company's financial leverage, as measured by debt over capitalization, remained low at 13.5% at end-September 2023. Similarly, the liability to asset ratio, as measured by total liabilities over total assets, increased but remained low at 15.5% at end-September 2023 from 3.1% at end-2020.

### Debt Servicing Capability

The liquidity of HRIOM was moderately weak. At end-September 2023, HRIOM had unrestricted cash balance of RMB167.9 million, compared with its debt due within one year of RMB364.0 million. At the same time, the company had unused credit facilities of RMB2,328.8 million at end-September 2023. HRIOM's financing channel mainly concentrates in bank loans. Therefore, obtaining additional funding channels or government support would be crucial in maintaining its liquidity.

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.