

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

HONG KONG, 12 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Linyi Eastern City Construction Investment Group Co., Ltd. (“LECCI” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Hedong Government’s Ownership and Supervision: The Hedong government holds the full ownership of LECCI through the Finance Bureau of Hedong District (“Hedong FB”). The Hedong government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Hedong 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 Hedong and Strategic Alignment: LECCI, as the key LIDC in Hedong, is primarily responsible for the investment, development and operation of infrastructure projects and industrial park development within the district. LECCI is mainly engaged in the urban renewal of the two main district in Hedong and operates as the main industrial park developer and operator with strong regional advantages. Its primary responsibilities include overseeing the urban renewal projects in areas such as Beijing East Road and managing the construction and operation of industrial parks, including those dedicated to smart hardware and solar photovoltaics. LECCI plays an important role in

promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: LECCI received operational and financial support from the government. LECCI received a total subsidy amount of RMB481.6 million from 2020 to the first nine months of 2023. The Hedong government continued to inject capital, real estate assets, right of use asset, equities of other companies and other kinds of assets into LECCI to expand its asset size and diversify its business. Besides, the Hedong government will repurchase some infrastructure projects and provide policy supports to LECCI to ensure its business operation. Given that it is the key entity for infrastructure construction and industrial park development in Hedong, LECCI has an advantage in acquiring related resources and major projects. We believe LECCI is likely going to receive government support to support its daily business operation.

LECCI's Financial and Liquidity Position: LECCI's total assets showed a continuous growth trend in the past years and reached RMB14.2 billion at end-September 2023, mainly due to the increase of inventories. The non-current assets of LECCI accounted for 38.7% of the total assets at end-September 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and intangible assets. LECCI's financial leverage (total liabilities to total assets) was 55.3% and its adjusted debt increased to RMB4.2 billion at end-September 2023 from RMB1.0 billion at end-2021. The liquidity of LECCI was sufficient. At end-September 2023, LECCI had a cash balance and unused credit facilities of RMB1.5 billion and RMB4.3 billion, respectively, compared with its debt due within one year of RMB1.0 billion. Besides, LECCI 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 Hedong: Hedong realized GDP of RMB29.7 billion in 2022, representing a year-on-year growth rate of 5.1%. Its GDP scale was ranked 9th in all jurisdictions of Linyi City, Shandong Province ("Linyi") in 2022. Hedong has jurisdiction over 8 streets and 3 towns, with a total area of 613.4 square kilometers. At end-2022, Hedong had a resident population of 0.5 million, with an urbanization rate of 61.4%.

The Hedong government's aggregate fiscal revenues are mainly derived from budgetary revenue and transfer payment from higher government. The Hedong government's budgetary revenue maintained relatively stable growth in the past few years and reached RMB2.2 billion in 2022. Its fiscal self-sufficiency was improving but remained weak, with budget deficits of 100.6% in 2022. Therefore, the Hedong government highly relied on transfer payments from higher government. The government fund income, mainly generated by land sales, reached RMB0.2 billion in 2022, representing a relatively low level. The outstanding debt of the Hedong government continued to grow in the past few years, recording at RMB8.2 billion at end-2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 142.7% at end-2022 from 97.1% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Contact Information

Primary Analyst
Jack Li, CESGA
Analyst
(852) 3462 9585
jack.li@lhratingsglobal.com

Secondary Analyst
Joyce Huang, CFA
Managing Director
(852) 3462 9586
joyce.huang@lhratingsglobal.com

Committee Chairperson
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi, CESGA
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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