

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Longkou Gangcheng Investment Development and Construction Group Co., Ltd.

HONG KONG, 19 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Longkou Gangcheng Investment Development and Construction Group Co., Ltd. (“LKGI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Longkou City (“Longkou government”) would provide very strong support to LKGI if needed, in light of its full ownership of LKGI, LKGI’s strategic importance as sole local investment and development company (“LIDC”) responsible shantytown renovation and an important infrastructure development entity in Longkou City (“Longkou”), and the linkage between the Longkou government and LKGI, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the Longkou government may face significant negative impact on its reputation and financing activities if LKGI encounters any operational and financial difficulties.

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

Key Rating Rationales

Longkou Government’s Ownership and Supervision: The Longkou government holds 100% ownership of LKGI through the Longkou State-owned Assets Operation and Support Center (“Longkou SAOSC”). As the ultimate controller of LKGI, Longkou government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Longkou government has assessment mechanism over the company through Longkou SAOSC and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance and Strategic Alignment: LKGI is the sole LIDC responsible for shantytown renovation projects of the whole city. It also undertakes infrastructure construction and project development in Longkou High-tech Industrial Park (“LH Industrial Park”), Longkou Economic Development Zone (“Longkou EDZ”) and Longkou Coastal Tourism Resort (“LCT Resort”) to support Longkou’s industrial development. Its business operation and strategic planning have been aligned with the government’s development plans, playing a significant role in promoting the economic and social development of the region.

Ongoing Government Support: LKGI receive ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations, including cash capital injection of RMB2 billion in 2021, asset injections and financial subsidies amounting to RMB10.2 billion and RMB700 million, respectively, between 2020 and the first nine months of 2023. We believe that the government support will remain intact given the company's strategic importance in Longkou.

Economy and Fiscal Condition of Longkou: Longkou is a county-level city directly under the jurisdiction of Shandong Province and managed by Yantai city. As one of the top 100 counties in China in terms of comprehensive strength, Longkou maintained a stable economic growth in the past three years. Longkou's GDP reached RMB138.2 billion in 2022, representing a year over year growth rate of 6.0%. Its economic development focused on machinery, non-ferrous metal smelting and rolling, chemicals, building materials and food industry in recent years.

The Longkou government's aggregate fiscal revenues are mainly derived from budgetary revenue, which increased to RMB11.4 billion in 2022 from RMB10.2 billion in 2020. Its fiscal self-sufficiency capacity is moderate, with a budget deficit of 0.9% in 2022. Longkou's government fund income, mainly generated by land sales, increased from RMB1.5 billion in 2021 to RMB8.4 billion in 2022, owing to the large increase of land sales incomes.

The outstanding debt of the Longkou government increased to RMB18.8 billion at end-2022 from RMB13.5 billion at end-2021, mainly due the increase of special debt to support Longkou's project development.

LKGI's Financial and Liquidity Position: LKGI's total asset surged to RMB21.4 billion at end-September 2023 from RMB11.6 billion at end-2020, as the company actively participated in Longkou's project development. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. Its total debt reached RMB6.7 billion at end-September 2023, up from RMB677 million at end-2020. The company's financial leverage, as measured by debt/capitalization increased to 33.6% from 6.3% over the same period. We expect LKGI to continue to rely on external financing to support its capital expenditures and debt repayments.

LKGI's asset quality was relatively weak. By end-September 2023, the company had accumulated sizeable inventories of RMB9.3 billion (mainly construction costs and lands to be developed) from its infrastructure construction and shantytown renovation projects. These inventories usually take a long time to monetize due to protracted construction, recognition and cash collection periods. At the same time, the company also had investment properties amounting to RMB3.7 billion, which mainly comprised its self-operated industrial projects. Yet LKGI is still applying ownership certification for part of investment properties.

LKGI's short-term debt servicing pressure is manageable. At end-September 2023, LKGI had unrestricted cash balance of RMB295 million, compared with its debt due within one year of RMB300 million. In addition, LKGI has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt

repayments and business operations. At end-September 2023, the company had unused credit facilities amounting to RMB1.8 billion.

Rating Sensitivities

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

We would consider upgrading LKGI 's rating if there is an upgrade in our internal credit assessment on the Longkou 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 LKGI'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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