

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Mianyang Emerging Investment Holdings 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 Mianyang Emerging Investment Holdings Co., Ltd. (“MYEI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Mianyang Municipal People’s government (“Mianyang government”) would provide strong support to Mianyang Emerging Investment Holdings Co., Ltd. (“MYEI” or the company) if needed. This mainly considers the Management Committee of Mianyang Science and Technology City (“the management committee”), the de facto local government of Mianyang High-tech Industrial Development Zone (“Mianyang High-tech Zone”)’s 90% ownership of MYEI, MYEI’s strategic position as an important local investment and development company (“LIDC”) responsible for project construction in Mianyang High-tech Zone, and the strong linkage between the local government and MYEI, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the local government may face negative impact on its reputation and financing activities should MYEI encounter any operational or financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The management committee holds 90% ownership of MYEI, while the remaining 10% of MYEI’s shares is owned by Sichuan Provincial Department of Finance to subsidize the provincial social security fund. The management committee was set up in 2021 with the approval of Sichuan Provincial Government and entrusted to the Mianyang government for management.

The local government has strong control and supervision over MYEI including the appointment of senior management and supervision of development strategy, major financing plan and investment decision. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Alignment and Importance: MYEI is an important LIDC responsible for the project development in Mianyang. It mainly develops industrial parks, municipal infrastructure and affordable within Mianyang High-tech Zone, a national high-tech zone under the direct management of the management committee. MYEI’s business operation and strategic

planning have been aligned with the local government's economic and social policies, playing an important role in urban development, attracting investment and promoting industrial development.

Ongoing Government Support: MYEI receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its operations. The local government injected an array of assets including sand and stone mining rights, tree farms and buildings, etc. valued at RMB3.6 billion between 2020 and 2023. Over the same period, the local government also provided operational subsidies with a total amount of RMB345 million to MYEI. We expect MYEI to receive ongoing support from the local government in the coming years considering its strategic importance in Mianyang.

Economic and Fiscal Conditions of Mianyang: Mianyang is a prefecture-level city under the jurisdiction of Sichuan Province. Renowned as the "City of Science and Technology", Mianyang is the home to numerous research institutions, universities and high-tech companies. In addition, Mianyang enjoys abundant mineral resources and tourism resources. Its GDP reached RMB362.7 billion in 2022, representing a year-over-year growth rate of 5.0%, down from 8.7% in 2021 owing to Covid's disruption.

Mianyang High-tech Zone was the first batch national high-tech zone established in 1992 with the approval of State Council. It focuses on the development three pillar industries, namely information technology, automobile and parts and new materials.

The Mianyang government's budgetary revenue increased to RMB15.9 billion in 2022 from RMB14.1 billion in 2020. However, its fiscal self-sufficiency capacity is weak. Therefore, the Mianyang government highly relies on the government fund income and transfer payments from higher governments, which contributed to 45.3% of aggregate revenue in 2022. The government fund income of Mianyang decreased to RMB20.5 billion in 2022 from RMB28.8 billion in 2020, owing to the weak property market.

The outstanding debt of the Mianyang government continued to grow as the Mianyang government borrowed heavily in special debts to support its public projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had surged to 126.4% at end-2022 from 78.5% at end-2020.

MYEI's Financial and Liquidity Position: MYEI's asset size grew significantly to RMB20.7 billion at end-September 2023 from RMB11.3 billion at end-2020, as the company actively participated in project development in Mianyang High-tech Zone. MYEI relied on both capital injections and borrowings to fund its asset expansion. Therefore, the company's financial leverage, as measured by debt/capitalization, stayed at the manageable level of c. 50%-55% between 2020 and the first nine-months of 2022.

MYEI's asset liquidity was weak, as it the company's project development activities accumulated sizeable inventories (mainly lands and construction costs), construction in progress and investment properties, which added up to RMB11.1 billion at end-September 2023, representing 53.5% of total asset. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

MYEI' short-term debt serving pressure is high. At end-September 2023, the company had cash of RMB695 million, including restricted cash of RMB276 million, compared to debt due within one year of RMB3.1 billion. Yet we expect the company to roll over majority of its short-term bank borrowings (end-September 2023: RMB2.0 billion). The company also has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing channel to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB1.1 billion and available bond issuances quota of RMB550 million.

Rating Sensitivities

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

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