

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Taifeng Holding Group Co., Ltd.

HONG KONG, 6 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shandong Taifeng Holding Group Co., Ltd. (“SDTF” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Xintai Government’s Ownership and Supervision: The Xintai government holds 100% ownership of SDTF through the Xintai State-owned Assets Operation Center (“Xintai SAOC”). As the ultimate controller of SDTF, Xintai 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 Xintai government has assessment mechanism over the company through Xintai SAOC and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Xintai and Strategic Alignment: SDTF is an important LIDC responsible for state-owned assets operation in Xintai. The company runs coal mine, tree farm, reservoir and an array of state-owned properties within the region. The company’s business operation plays a significant role in value maintenance and appreciation of state-owned assets, job creation and tax contribution in Xintai. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: SDTF receives ongoing support from the local government. The Xintai government provided financial support of RMB953 million between 2020 and 2023 to SDTF to support its operations. The local government also arranged Xintai Integrated Urban-Rural Development Co., Ltd., (“XIURD”) another LIDC mainly responsible for project

development in Xintai, to guarantee SDTF's bank borrowings and bond issuances, enhancing SDTF's financing capability. We expect the support from the local government to remain intact given SDTF's strategic importance in Xintai.

Economy and Fiscal Condition of Xintai: Xintai is a county-level city under the jurisdiction of Shandong Province and managed by Tai'an City ("Tai'an"). Xintai maintained a relatively stable GDP growth between 2020 and 2022, reaching RMB63.0 billion in 2022. Its economic development focused on equipment manufacturing, fine chemicals, new energy and optoelectronic technology industry in recent years.

The Xintai government's budgetary revenue was on a downward trend, lowering to RMB3.5 billion in 2022 from RMB4.1 billion in 2021. The fiscal self-sufficiency rate of the Xintai government was low, recording budget deficit 84.8% in 2022. Yet the Xintai government continuously received a certain number of subsidies from higher government authorities.

Xintai's government fund income, mainly generated by land sales, declined to RMB2.9 billion in 2022 from RMB3.5 billion in 2021, mainly owing to the weak property market. However, the outstanding debt of the Xintai government continued to grow, as the Xintai government borrowed heavily in special debts to support its public projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 139.3% at end-2022 from 79.9% at end-2020.

SDTF's Financial and Liquidity Position: SDTF's total asset was on a downward trend in the past few years, decreasing to RMB12.4 billion at end-September 2023 from RMB13.3 billion at end-2020. Its total debt also decreased to RMB2.8 billion from RMB3.3 over the same period. Therefore, the company's financial leverage, as measured by debt/capitalization, stayed at a manageable level of around 30%.

However, SDTF's asset quality is moderately weak, as the company had a large number of other receivables, which accounted for 41.8% of total asset at end-September 2023. They were primarily due from local government agencies and SOEs, usually without a specified repayment schedule. The local government agencies' repayment is highly subject to the fiscal conditions of the local government.

The liquidity of SDTF was tight. At end-September 2023, the company had cash balance of RMB527 million (including restricted cash of RMB420 million), while it had debt due within one year of RMB1.4 billion. The company has access to various financing channels, including bank borrowings and bond issuances to support its operations and debt repayments. Yet it only had unused bank facilities of RMB83 million at end-September 2023. It is vital for SDTF to refinance its incoming maturities and obtain timely support from the local government.

High Contingent Liability: SDTF's contingent liability is high. The company provided financial guarantees of RMB2.5 billion to third parties at end-September 2023, accounting for 38.2% of its net assets. Guaranteed parties were mainly other SOEs (including XIURD) and some private-owned companies. The reciprocal guarantees between SDTF and XIURD, two major bond issuance entities in Xintai, also indicate a significant contagion risk among LIDCs and SOEs within the region.

Rating Sensitivities

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

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