

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Danjiangkou Jiaotou Yuantu Materials Co. Ltd.

HONG KONG, 19 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Danjiangkou Jiaotou Yuantu Materials Co. Ltd. (“DJYM” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Danjiangkou Government’s Ownership and Supervision: The Danjiangkou government holds the full ownership of DJYM through the Finance Bureau of Danjiangkou City’s (“Danjiangkou FB”) fully-owned subsidiary, Danjiangkou Transportation Investment Co. Ltd. The Danjiangkou 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 Danjiangkou 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 Danjiangkou and Strategic Alignment: DJYM, as the key LIDC in Danjiangkou, is the sole entity responsible for mining and quarrying of minerals and sand. It holds government-authorized franchise rights with the aim of establishing a high-standard sand and gravel transportation center. Leveraging the sand and gravel transportation center, the company is developing a green building material industrial park and supplying sand, gravel and other materials to other entities in Danjiangkou. Additionally, the company is responsible for selling greenery and maintenance services for municipal infrastructure facilities, stations and service zone projects. The company is also involved in the development of tourism and

some transportation-related infrastructure construction projects in Danjiangkou. DJYM 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: DJYM received operational and financial support from the Danjiangkou government. DJYM received a total subsidy amount of RMB717.1 million from 2021 to 2023. The Danjiangkou government continued to inject capital, right of use assets, equities of other companies and other kinds of assets into DJYM to expand its asset size and diversify its business. Besides, the Danjiangkou government will provide policy support to the company to ensure the operation of its business. Given that it is the sole entity for gravel, sand and greenery supply in Danjiangkou, DJYM has an advantage in acquiring related resources and major projects. We believe DJYM is likely going to receive government support to support its daily business operation.

DJYM's Financial and Liquidity Position: DJYM's total assets showed a continuous growth trend in the past few years and reached RMB11.4 billion at end-2023, largely attributed to the consolidation of two subsidiaries. The current assets of DJYM accounted for 39.1% of the total assets at end-2023, and the overall asset liquidity was moderately weak due to large amount of intangible asset, inventory and account receivables. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

DJYM's financial leverage (total liabilities to total assets) rapidly declined to 39.2% at end-2023 from 76.7% at end-2021 with the equity injection of other companies from the Danjiangkou government. Its adjusted debt decreased to RMB1,171 million at end-2023 from RMB1,243 million at end-2021. DJYM's liquidity was sufficient. At end-2023, DJYM had a cash balance of RMB92 million, compared with its debt due within one year of RMB45.4 million. Besides, DJYM 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 Danjiangkou: Danjiangkou is a county-level city under the jurisdiction of Shiyan City. After a slump of 7.3% in 2020 due to covid's disruption, Danjiangkou's economic growth had rebounded significantly since 2021, with its GDP growth at 11.4% and 9.8% in 2021 and 2022, respectively. Danjiangkou's economic growth was mainly fueled by the secondary industry and tertiary industries in the past few years, which accounted for 38.7% and 49.8% of the GDP in 2022, respectively.

Danjiangkou's budgetary revenue increased steadily to RMB1.6 billion in 2022 from RMB0.9 billion in 2020, with the contribution of the tax revenue elevated to 82.5% from 62.0% over the same period. The fiscal self-sufficiency rate of the Danjiangkou government was relatively low (29% in 2022) and it recorded a budget deficit of 243.2% in 2022. Therefore, the Danjiangkou government continuously received a certain number of subsidies from higher government authorities. In addition, Danjiangkou's government fund income fluctuated between RMB0.7 billion in 2020 and RMB1.3 billion in 2022, mainly due to the fluctuation of land use right transfer income amid challenging property market conditions. Given the Danjiangkou government borrowed heavily in special debts to support its public projects, its fiscal debt ratio,

as measured by total government debt outstanding/aggregate revenue, increased to 84.5% at end-2022 from 64.9% at end-2020.

Rating Sensitivities

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

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