

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Emeishan Tianxiu Environment Group Co., Ltd.**

HONG KONG, 18 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Emeishan Tianxiu Environment Group Co., Ltd. (“ETEG” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

***Emeishan Government’s Ownership and Supervision:*** The Emeishan State-owned Asset Supervision and Administration Committee (“the Emeishan SASAC”) holds the full ownership of ETEG through Emeishan Development (Holding) Co., Ltd. (“EMD”), the largest LIDC in Emeishan. The Emeishan 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 Emeishan government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

***Strategic Importance to Emeishan and Strategic Alignment:*** ETEG, as the key subsidiary of EMD, is primarily responsible for project construction, water supply, and waste management in Emeishan, with a strong regional advantage. ETEG 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:*** ETEG received operational and financial support from the Emeishan government. ETEG received a total subsidy amount of RMB29.3 million from 2020 to 2023. The Emeishan government also injected capital and assets into ETEG to expand its

asset size. Given that ETEG is the key entity for project development, water supply and waste management in Emeishan, we believe ETEG is likely to receive ongoing government support.

***Economy and Fiscal Strength of Emeishan:*** Emeishan is a county-level city of Leshan City, Sichuan Province, and is located in the southern part of Sichuan. Emeishan's economic growth fluctuated in the past three years due to the COVID-19 pandemic, with a year-over-year growth rate of 4.2%, 8.0% and -3.9% in 2020, 2021 and 2022, respectively. Emeishan's GDP reached RMB37.4 billion in 2022, and ranked the 2nd among 11 districts and county-level cities under the administration of Leshan. Emeishan's industries, including food and beverage, green materials, and tourism, show continuous growth in the past three years.

Emeishan's governmental fiscal revenues primarily stem from budgetary income and government fund income. In 2022, the budgetary revenue of the Emeishan government increased to RMB 2.2 billion, up from RMB 2.1 billion in 2021, while maintaining a consistent budgetary expenditure of RMB 3.2 billion. Consequently, the Emeishan government saw an improvement in its budget deficit, reducing to 45.9% from 51.6% during the same period. Simultaneously, government fund income exhibited robust growth, experiencing a year-on-year increase of 41.6% and reaching RMB 3.6 billion in 2022. The debt ratio, measured by the total outstanding government debt relative to aggregate revenue, decreased from 136.9% at the end of 2021 to 118.0% at the end of 2022.

***ETEG's Financial Matrix and Liquidity Position:*** ETEG's total asset surged to RMB12.9 billion at end-September 2023 from RMB7.9 billion at end-2020, as the company actively participated in project development within Emeishan. The company relied on both borrowings and asset injections from the local government to fund its asset expansion. Its total debt reached RMB4.1 billion at end-September 2023, as compared with RMB2.3 billion at end-2020. Therefore, the company's financial leverage, as measured by debt/capitalization increased significantly to 43.1% at end-September 2023 from 32.1% at end-2020; yet it stayed at a manageable level.

The short-term debt servicing pressure of ETEG is high. At end-September 2023, the company had cash balance of RMB589 million (including restricted cash of RMB113 million), while it had short-term debt of RMB1.6 billion. Nevertheless, we expect ETEG to roll over most of its short-term bank borrowings (end-September 2023: RMB918 million). In addition, the company has access to various financing channels, including bank borrowings and bond issuances, to support its debt repayments and business operations. At-end 2023, the company also had unused bank facilities of RMB403 million.

### **Rating Sensitivities**

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

We would consider upgrading ETEG's rating if (1) there is strengthened support from the Emeishan government, or (2) there is an upgrade in our internal credit assessment on the Emeishan 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 ETEG'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](http://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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