

**Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hengyang City Construction Investment Development Group Co., Ltd.**

HONG KONG, 21 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Hengyang City Construction Investment Development Group Co., Ltd. (“HCIDG” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

***Hengyang Government’s Ownership and Supervision:*** The Hengyang government holds 100% ownership of HCIDG through the Hengyang State-owned Asset Supervision and Administration Committee of the People’s Government of Hengyang (“Hengyang SASAC”). The Hengyang SASAC is sole shareholder and actual controller of the company. The Hengyang government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment, and financing plan decisions. In addition, the Hengyang government has assessment mechanism over the company and appoints auditors to review the operating performance and financials position on a periodic basis.

***Strategic Importance to Hengyang and Strategic Alignment:*** HCIDG, as the most important LIDC in Hengyang, is mainly responsible for the urban infrastructure construction within Hengyang and Hengyang Riverside New District (“Hengyang RND”). The company’s strong franchise advantage enables it to undertake important infrastructure construction projects under the instruction of the Hengyang government. It focusses on construction projects such as roads, bridges, affordable housing, land consolidation and development, while it also engaged in commercial concrete product sales, housing sales and property services, etc. The company’s 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:** HCIDG received ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations and enhanced the capital strength and profitability of the company. We believe that the Hengyang government support will remain intact given the company's strategic importance in Hengyang. The company received financial subsidies amounting to RMB6.7 billion between 2020 and the first nine months of 2023 from the Hengyang government to maintain its business operation. Over the same period, the company also received asset injections in the form of cash and equity transfers, which reached RMB14.6 billion.

**HCIDG's Financial and Liquidity Position:** As HCIDG actively participated in infrastructure development within the region, its total assets increased moderately to RMB154.9 billion at end-September 2023 from RMB127.6 billion at end-2020, representing a growth rate of 21.4%. HCIDG's total debt continued to grow in the past few years and reached RMB89.2 billion at end-September 2023. The company's financial leverage, as measured by debt/capitalization was on an upward trend in the past few years, increasing from 52.0% at end-2020 to 59.4% at end-September 2023.

The liquidity of HCIDG was moderately weak. At end-September 2023, the company had unrestricted cash balance of RMB11.7 billion, compared with its debt due within one year of RMB18.7 billion. Nevertheless, HCIDG has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing (such as financial lease), to support its debt repayments and business operations. At end-September 2023, the company has unused credit facilities of RMB31.4 billion and available onshore and offshore bond issuance quota of about RMB15.6 billion.

**Economy and Fiscal Condition of Hengyang:** Hengyang is a prefecture-level city under the jurisdiction of Hunan Province ("Hunan"), and is located in the south of Mount Hengshan and south-central part of Hunan. It is the second largest city in Hunan. Hengyang's GDP reached RMB419.1 billion in 2023, representing a year-over-year (y-o-y) growth rate of 5.3%, and its GDP amount was ranked 4th among all prefecture-level cities in Hunan. Its economic development focused on non-ferrous metals, new energy vehicles, rail transportation, fine chemicals, textiles and garments industry in recent years.

The Hengyang government's budgetary revenue maintained steady growth in the past three years and reached RMB20.3 billion in 2023, with the tax revenue accounting for 70.1% of budgetary revenue. The fiscal self-sufficiency rate of the Hengyang government was low and it recorded a budget deficit of 208.7% in 2023. Meanwhile, Hengyang's government fund income, mainly generated by land sales, increased by 20.31% y-o-y to RMB26.6 billion in 2023. Given the Hengyang 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 increased to 156.4% at end-2023 from 128.3% at end-2021.

## Rating Sensitivities

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

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