

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

HONG KONG, 26 March 2024– Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Luoyang Guoyuan Investment Holding Group Co., Ltd. (“LGIH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Luoyang City, Henan Province (“Luoyang government”) would provide moderately strong support to LGIH if needed, in light of its majority ownership of LGIH, LGIH’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Jianxi District, Luoyang City (“Jianxi”), and the linkage between the Luoyang government and LGIH, 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 Luoyang government may face negative impact on its reputation and financing activities if LGIH encounters any operational and financial difficulties.

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

Key Rating Rationales

Luoyang Government’s Majority Ownership: The Luoyang government holds 60% stake of LGIH through the State-owned Assets Supervision, Administration Committee of Luoyang City (“Luoyang SASAC”), and is the actual controller of the company. The remaining stake is held by the Finance Bureau of Jianxi District, Luoyang City. The Luoyang government 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 Luoyang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Importance to Luoyang and Jianxi, and Strategic Alignment: The People’s Government of Jianxi District, Luoyang City (“Jianxi government”) integrated state-owned enterprises in the region in 2022, after which LGIH became the sole LIDC in the region. LGIH is mainly responsible for infrastructure construction and state-owned assets operation in Jianxi with strong regional advantages. The company undertakes most of the important municipal infrastructure projects in the region, and is responsible for the construction of affordable housing, urban renewal, industrial operation, rural revitalization, medical rehabilitation, cultural tourism and other industrial fields in the region under the planning of the Luoyang government

and Jianxi government. LGIH plays an important role in promoting the economic and social development of Jianxi. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: LGIH received operational and financial support from the local government. LGIH received a total subsidy amount of RMB2.8 billion from 2020 to the first nine months of 2023, mainly including operating subsidies and tax breaks, etc. The Jianxi government will repurchase some infrastructure and affordable housing construction projects and provide policy supports to LGIH to ensure its business operation. Besides, the local government increased the company's registered capital through cash injection and continued to inject equity and land assets into LGIH. Given the regional advantage in infrastructure construction and affordable housing construction in Jianxi, LGIH has advantages to obtain land resources and major projects. We believe LGIH is likely going to receive government support in the form of operational or financial subsidies to support its daily business operation.

LGIH's Financial Matrix and Liquidity Position: LGIH's total assets showed a continuous growth trend in past three years and reached RMB39.9 billion at end-September 2023, mainly due to the large increase in inventories and other account receivables. The financial leverage (total liabilities to assets) and total debt capitalization ratio of LGIH were 55.5% and 47.5% at end-September 2023, respectively. The total adjusted debt of LGIH increased from RMB14.2 billion at end-2021 to RMB16.0 billion at end-September 2023. The liquidity of LGIH was tight. LGIH had a cash balance of approximately RMB1.7 billion and unused credit facilities of RMB0.3 billion at end-September 2023, compared with debt within one year of RMB5.7 billion at the same time. However, LGIH has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. LGIH has financing channels including bank loans, bond issuance and non-traditional financing etc. to support its debt repayment and business operation.

Economy and Fiscal Strength of Luoyang: Luoyang realized an aggregate GDP of RMB567.5 billion in 2022 and was ranked 2nd among 17 prefecture-level cities in Henan Province. However, its GDP growth rate fluctuated in the past three years, which was 3.0%, 4.5% and 3.0% in 2020, 2021 and 2022, respectively. As an important industrial city in the central region of China, Luoyang has developed five leading industries, namely advanced equipment manufacturing, new materials, high-end petrochemicals, IT and tourism in recent years.

The Luoyang government's aggregate fiscal revenue demonstrated a downward trend between 2020 and 2022. This was due to the significant drop in the government fund income, mainly generated by the land-use right concession, amid the property downturn. Nevertheless, the Luoyang government's budgetary revenue was largely stable over the same period. Its fiscal self-sufficiency rate was moderately low but improved, with a budget deficit of 58.2% in 2022, narrowing from 68.9% in 2020.

The outstanding debt of the Luoyang government continued to grow in the past three years, mainly due to the large new issuance of special debts to support the development of transportation, shanty town renovation and healthcare projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 89.4% at end-2022 from 65.0% at end-2021.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, 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 LGIH'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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