

**Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Mianyang Science Technology City Development Investment (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 Mianyang Science Technology City Development Investment (Group) Co., Ltd. (“MSTCD” or “the company”). The Outlook is Stable.

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

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

### **Key Rating Rationales**

***Mianyang Government’s Ownership and Supervision:*** The Mianyang government holds the majority ownership of MSTCD through the Mianyang State-owned Assets Supervision and Administration Commission (“Mianyang SASAC”). Other shares are held by China Agricultural Development Key Construction Fund Co., Ltd. and Sichuan Provincial Department of Finance. The Mianyang 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 Mianyang 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 Mianyang and Strategic Alignment:*** MSTCD, as the key LIDC in Mianyang, is primarily responsible for the investment, development and operation of infrastructure projects, as well as industrial parks within the city. As the most important state-owned enterprise responsible for industrial investment in Mianyang, the company covers investment attraction and investment in industries such as intelligent manufacturing, physical manufacturing, steel, aerospace, rare earths, and defense industries. MSTCD is also involved

in real estate construction and sales, management of exhibition and tourism businesses, urban services, and financial development. The company 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:** MSTCD received operational and financial support from the Mianyang government. MSTCD received a total subsidy amount of RMB3.2 billion from 2020 to the first nine months of 2023. The Mianyang government continued to inject capital, project-related assets, equities of other companies and other kinds of assets into MSTCD to expand its asset size and diversify its business. Besides, the Mianyang government will repurchase some infrastructure projects and provide policy supports to MSTCD to ensure its business operation. Given that it is the key entity for infrastructure construction in Mianyang, MSTCD has an advantage in acquiring related resources and major projects. We believe MSTCD is likely going to receive government support to support its daily business operation.

**MSTCD's Financial and Liquidity Position:** MSTCD's total assets showed a continuous growth trend in the past few years and reached RMB72.7 billion at end-September 2023, largely attributed to the increase of inventories. The current assets of MSTCD accounted for 64.8% of the total assets at end-September 2023, yet the overall asset liquidity was moderately weak due to large amount of inventory, investment properties and receivables. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

MSTCD's financial leverage (total liabilities to total assets) remained relatively high at 72-74% from 2020 to end-September 2023, and its adjusted debt increased to RMB43.0 billion at end-September 2023 from RMB32.1 billion at end-2020. MSTCD's liquidity was weak. At end-September 2023, MSTCD had a cash balance and unused credit facilities of RMB4.2 billion (including restricted cash of RMB1.4 billion) and RMB11.8 billion, respectively, compared with its debt due within one year of RMB22.9 billion. Having said that, MSTCD has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Mianyang:** Mianyang is a prefecture-level city under the jurisdiction of Sichuan Province. Renowned as the "City of Science and Technology", Mianyang is the home to many research institutions, universities and high-tech companies. In addition, Mianyang enjoys abundant mineral resources and tourism resources. Its GDP reached RMB362.7 billion in 2022, representing a year-over-year growth rate of 5.0%, down from 8.7% in 2021 owing to Covid's disruption.

The Mianyang government's budgetary revenue increased to RMB15.9 billion in 2022 from RMB14.1 billion in 2020. However, its fiscal self-sufficiency capacity is weak. Therefore, the Mianyang government highly relies on the government fund income and transfer payments from higher governments, which contributed to 45.3% of aggregate revenue in 2022. The government fund income of Mianyang decreased to RMB20.5 billion in 2022 from RMB28.8 billion in 2020, owing to the weak property market.

The outstanding debt of the Mianyang government continued to grow as the Mianyang 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 surged to 126.4% at end-2022 from 78.5% at end-2020.

### **Rating Sensitivities**

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

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