

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

HONG KONG, 1 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Puyang Kaizhou Investment Group Co., Ltd. (“PKIG” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

***Puyang Government’s Ownership and Supervision:*** The Puyang government holds 51% ownership of PKIG through the Finance Bureau of Puyang County (“Puyang FB”). The remaining 49% is ultimately held by The Finance Bureau of Puyang City and Henan Provincial Department of Finance. The Puyang 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 Puyang 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 Puyang and Strategic Alignment:*** PKIG, as the key LIDC in Puyang, is primarily responsible for the investment, development and operation of infrastructure projects within the city. Serving as the sole entity in charge of infrastructure projects throughout the region, PKIG is mainly engaged in construction projects encompassing urban and rural development, urban village renovations, shantytown transformations, resettlement housing initiatives, and ecological restoration projects with strong regional advantages. The company is also responsible for urban operations, real estate development, and the construction of municipal, bridge, and water conservancy projects.

PKIG 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:** PKIG received operational and financial support from the Puyang government. PKIG received a total subsidy amount of RMB421.0 million from 2020 to the first six months of 2023. The Puyang government continued to inject capital, project-related assets, equities of other companies and other kinds of assets into PKIG to expand its asset size and diversify its business. Besides, the Puyang government will repurchase some infrastructure projects and provide policy supports to PKIG to ensure its business operation. Given that it is the sole entity for infrastructure construction in Puyang, PKIG has an advantage in acquiring related resources and major projects. We believe PKIG is likely going to receive government support to support its daily business operation.

**PKIG's Financial and Liquidity Position:** PKIG's total assets showed a continuous growth trend in the past few years and reached RMB33.6 billion at end-June 2023, largely attributed to the increase of inventories that related to the infrastructure construction business. The current assets of PKIG accounted for 89.5% of the total assets at end-June 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and receivables. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

PKIG's financial leverage (total liabilities to total assets) increased to 52.9% and its adjusted debt increased to RMB10.0 billion at end-June 2023 from RMB6.0 billion at end-2020. PKIG's liquidity was sufficient. At end-June 2023, PKIG had a cash balance and unused credit facilities of RMB1.6 billion and RMB8.4 billion, respectively, compared with its debt due within one year of RMB557.9 million. Besides, PKIG 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 Puyang:** Puyang is a county-level city under the jurisdiction of Puyang City, and located in the northeastern part of Henan Province. Puyang had maintained relatively stable economic growth in the past few years, with its GDP amount reaching RMB27.9 billion, RMB30.3 billion, RMB32.6 billion in 2020, 2021 and 2022, respectively. Its economic growth was mainly fueled by the tertiary industries in the past few years, which accounted for 54.0% in 2022.

Puyang's governmental fiscal revenues primarily stem from budgetary income and government fund income. In 2022, the budgetary revenue of the Puyang government increased to RMB 1.8 billion, up from RMB1.7 billion in 2021. The tax revenue accounted for 70.7% of the budgetary revenue in 2022, down from 76.7% in 2021. This reduction was a result of implementing tax reduction and fee reduction policies to support the development of the local real economy. Puyang's government fund income, mainly generated by land sales, declined to RMB1.2 billion in 2022 from RMB2.3 billion in 2021, mainly due to macroeconomic policy adjustments and a downturn in the real estate industry. Over the past three years, the

fiscal liability ratio measured by the total government outstanding debt/total fiscal revenue increased from 87.1% in 2020 to 113.2% in 2021 and further to 158.6% in 2022. Despite this increase, the government debt remains manageable and under control.

### **Rating Sensitivities**

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

We would consider upgrading PKIG's rating if there is an upgrade in our internal credit assessment on the Puyang 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 PKIG'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.

### **Contact Information**

Primary Analyst  
Jack Li, CESGA  
Analyst  
(852) 3462 9585  
[jack.li@lhratingsglobal.com](mailto:jack.li@lhratingsglobal.com)

Secondary Analyst  
Joyce Huang, CFA  
Managing Director  
(852) 3462 9586  
[joyce.huang@lhratingsglobal.com](mailto:joyce.huang@lhratingsglobal.com)

Committee Chairperson  
Toni Ho, CFA, FRM  
Director  
(852) 3462 9578

[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Business Development Contact  
Joyce Chi, CESGA  
Managing Director  
(852) 3462 9569  
[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

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