

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

HONG KONG, 12 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Shandong Yihe Holding Group Co., Ltd. (“SYHG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Linyi City (“Linyi government”) would provide moderately strong support to SYHG if needed, in light of its full ownership of SYHG through the Management Committee of Yihe New District (“Yihe ND MC”), the de facto local government of Yihe New District (“Yihe ND”), SYHG’s strategic importance as the most important local investment and development company (“LIDC”) that is responsible for development and operation in Yihe ND, and the linkage between the Yihe ND MC and SYHG, 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 Linyi government may face negative impact on its reputation and financing activities if SYHG encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Yihe ND MC, the sole shareholder and the actual controller of the company, directly holds the full ownership of SYHG. The local 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, etc. In addition, the local government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance to Yihe ND and Strategic Alignment:** SYHG, as the most important LIDC in Yihe ND, is mainly responsible for construction and operation within the region, with a strong regional franchise advantage. SYHG also engages in commodities sales, property service, leasing, etc. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

**Ongoing Government Support:** SYHG continued to receive financial subsidies and asset/capital injections from the Linyi government and the Yihe ND MC to support its business operations. We believe the government support will remain intact given the company’s strategic importance in Yihe ND. With the development of oil and ore trade in Shandong, and

the continuous acceleration of urban construction and urbanization, the government's support for the company is expected to be further strengthened.

***SYHG's Financial and Liquidity Position:*** SYHG's total asset increased steadily to RMB23.8 billion at end-September 2023 from RMB18.9 billion at end-2020, as the company actively participated in Yihe ND's construction and development. Its total debt continued to grow in the past few years and reached RMB9.6 billion at end-September 2023. The company's financial leverage, as measured by debt/capitalization, remained stable and at a manageable level between 43% and 46% from end-2020 to end-September 2023.

The liquidity of SYHG was weak. At end-September 2023, SYHG had unrestricted cash balance and unused credit facilities of RMB781.2 million and RMB1,272.9 million, respectively, compared with its debt due within one year of RMB3,482.4 million. The company has available onshore bond issuance quota of RMB500 million. SYHG mainly relies on external financing and it 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. Therefore, obtaining additional financing channels or government support is important for the company to maintain its liquidity.

***Economy and Fiscal Condition of Linyi:*** Linyi is a prefecture-level city under the jurisdiction of Shandong Province ("Shandong") and located in the southeastern part of Shandong. Linyi's economic growth fluctuated in the past few years, due to Covid's disruption and economic recovery, with GDP growth rate recording at 8.7%, 4.2% and 6.3% in 2021, 2022 and 2023, respectively. Established in November 2022, Yihe ND focuses on the development of several leading industries, including intelligent manufacturing, opto-electronics, biological medicine, etc. in recent years.

The Linyi government's budgetary revenue maintained a steady growth in the past few years and reached RMB44.6 billion in 2023, with tax revenue accounting for 73.78% of budgetary revenue. Linyi's government fund income slumped to RMB24.5 billion in 2023 from RMB59.2 billion in 2021, owing to the weak property market. The debt ratio, as measured by the total government debt/aggregate revenue, increased to 146.5% in 2023 from 92.5% in 2021, mainly due to the increase in special debt.

### **Rating Sensitivities**

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

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