

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Xinyang Urban Development 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 Xinyang Urban Development Investment Group Co., Ltd. (“XUDI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects the People’s Government of Xinyang City’s (“the Xinyang government”) indirect majority ownership of XUDI, XUDI’s strategic importance as the most important LIDC responsible for project development and city operation in Xinyang City (“Xinyang”), Zhengzhou, and the linkage between the local government and XUDI, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support, hence a high possibility that the local government would provide very strong support to XUDI if needed. In addition, if XUDI encounters any operational and financial difficulties, the local government could potentially face significant negative impact on its reputation and financing activities.

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

Key Rating Rationales

Xinyang Government’s Ownership and Supervision: The Xinyang government, the actual controller of the company, indirectly holds the 99% ownership of XUDI. The Xinyang government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Xinyang 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 and Strategic Alignment: XUDI is the most important LIDC in Xinyang responsible for project development and city operation. Its project scope includes municipal infrastructures construction, resettlement housing and industrial park construction. It also provides water supply and related installation, heat supply, sewage treatment and sanitation services. XUDI’s business operation and strategic planning have been aligned with the local government’s development plans, playing a significant role in promoting the economic and social development in Xinyang.

Ongoing Government Support: Due to the strategic importance of XUDI in Xingyang, the company continues to receive financial subsidies and asset/capital injections from the Xingyang government to support its business operations. Between 2020 and 2023, XUDI received financial subsidies amounting to RMB538 million and project funds amounting to RMB1,630 million from the Xingyang government to support XUDI's business operation and project development. Over the same period, XUDI also received cash capital of RMB808 million from the government. We believe that the government's willingness to support will remain intact given the company's strategic importance in Xingyang.

Economy and Fiscal Condition of Xingyang: Xingyang is a county-level city under the direct jurisdiction of Henan Province and administered by Zhengzhou City, the provincial capital. Renowned as the hometown of China's silk culture, Xingyang is a time-honored city with abundant tourism resources and cultural sites. Xingyang recorded a GDP of RMB55.9 billion in 2022. The value-added of the tertiary industry dropped by 0.9% year-over-year, dragging down the GDP growth rate of Xingyang from 1.7% in 2021 to 0.1% in 2022, compared with 1.0% of Zhengzhou City and 3.1% of Henan Province.

Xingyang's budgetary revenue had dropped significantly to RMB4.9 billion in 2021 from RMB5.3 billion in 2020, but slightly rebounded to RMB5.0 billion in 2022. The budgetary expenditure declined to RMB6.8 billion in 2022 from RMB7.8 billion in 2020, thus its budget balance had improved. However, Xingyang's government fund income shrunk dramatically to RMB0.9 billion in 2022 from RMB5.3 billion in 2020, mainly due to the decreased of land use right transfer income amid challenging property market.

At the same time, the outstanding debt of the Xingyang government continued to grow. Given the Xingyang 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 150.9% in 2022 from 98.7% in 2020.

XUDI's Financial and Liquidity Position: As XUDI actively participated in project development in Xingyang, the company's total asset grew rapidly to RMB34.1 billion at end-September 2023 from RMB18.3 billion at end-2020. Its total debt also increased to RMB10.4 billion from RMB4.3 billion over the same period. The company's financial leverage, as measured by debt/capitalization, fluctuated but was at a manageable level between end-2020 and end-September 2023. It was 43.1% at end-September 2023, down from 50.6% at end-2021, mainly due to the continuous government support in 2022 and the first nine months of 2023.

However, XUDI's assets liquidity was moderately weak. The company's project construction activities accumulated sizeable inventories (mainly lands to be developed and construction costs), fixed asset, construction in progress and investment properties representing 64.7% of total asset at end-September 2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

XUDI's short-term debt servicing pressure was moderately high. At end-September 2023, the company had unrestricted cash balance of RMB1.6 billion, compared with its debts due

within one year of RMB3.6 billion. Nevertheless, XUDI has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations. At end-September 2023, the company had unused credit facilities and bond issuance quota amounting to RMB5.0 billion.

Rating Sensitivities

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

We would consider upgrading XUDI 's rating if 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 XUDI'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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