

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

HONG KONG, 11 April 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Boxing County Finance Investment Group Co., Ltd. (“BFIG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Boxing Government’s Ownership and Supervision: Boxing County Investment and Financing Service Center (“Service Center”), as the sole shareholder and ultimate controller of the company holds the full ownership of BFIG. The Boxing 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 Boxing government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Boxing and Strategic Alignment: BFIG, as an important LIDC in Boxing, is primarily responsible for project development, industrial investment and city operation within the region. The company develops and operates infrastructure and public facilities, including convention and exhibition center, heat supply network, parking lots. It also invests in local chemical products producer to promote industrial development of Boxing. BFIG 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: BFIG receives ongoing operational support and fiscal subsidies from the Boxing government. In addition, the Boxing government initiated a large-scale asset injection into BFIG in 2023. Injected assets included reservoirs, pipe network and franchise rights, which strongly enhance BFIG's equity base and are expected to generate stable rental income for BFIG in the coming years. Given the strategic of BFIG, we believe it is likely going to receive government support in various forms in the future.

Economy and Fiscal Strength of Boxing: As one of China's Top 100 Counties in terms of comprehensive strength, Boxing recorded a GDP of RMB48.1 billion in 2023, which was ranked third among nine districts and counties of Shandong's Binzhou City ("Binzhou"). Its economic development focused on oil and food processing, sheet metal, commercial kitchenware and petrochemicals in recent years. However, Boxing's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 9.5%, 3.7% and 4.5% in 2021, 2022 and 2023, respectively.

The budgetary revenue of the Boxing government maintained a steady growth in the past few years, increasing to RMB4.9 billion in 2023 from RMB3.4 billion in 2021. The Boxing's government fund income, mainly generated by land use right transfer income, rebounded to RMB3.1 billion in 2023 from RMB2.6 billion in 2020, representing a year-on-year growth rate of 19.5%. The outstanding debt of the Boxing government continued to grow, as the Boxing government borrowed heavily in special debts to support its public projects. At end-2023, the Boxing government's outstanding debt was RMB13.5 billion, up from RMB9.9 billion at end-2021.

BFIG's Financial Matrix and Liquidity Position: BFIG's almost doubled its total asset RMB28.3 billion at end-September 2023 from RMB15.7 billion at end-2022, as the company received substantial asset allocation from the local government. Although the company's total debt increased to RMB2.3 billion at end-September 2023 from RMB1.5 billion at end-2020, its financial leverage, as measured by debt/capitalization, remained at a relative low level of 10.5% at end-September 2023.

The short-term debt servicing pressure of BFIG is manageable. At end-September 2023, the company had cash balance of RMB637 million (including restricted cash of RMB80 million), while it had short-term debt of RMB823 million. We expect BFIG to roll over most of its short-term bank borrowings (end-September 2023: RMB674 million). In addition, the company had unused bank facilities of RMB50.4 million at end-September 2023.

Rating Sensitivities

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

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