

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Lunan (Zaozhuang) Economic Development Investment Co., Ltd.

HONG KONG, 12 April 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Lunan (Zaozhuang) Economic Development Investment Co., Ltd. (“LEDI” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Zaozhuang Government’s Ownership and Supervision: The Zaozhuang government holds the full ownership of LEDI through the Zaozhuang Administrative State-owned Assets Operation Center’s (“Zaozhuang ASAOC”) fully-owned subsidiary, Lunan Development Investment Holding (Zaozhuang) Group Co. Ltd. (“LDIHG”). The Zaozhuang 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 Zaozhuang 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 Zaozhuang and Strategic Alignment: LEDI, as the key LIDC in Zaozhuang, is primarily responsible for the investment, development and operation of infrastructure projects and supporting facilities within the city. Serving as the key entity in charge of infrastructure projects throughout the region, LEDI is mainly engaged in road, bridge and pipeline projects, industrial park development, healthcare and education projects, and other infrastructure related projects with strong regional advantages. In addition, the company assumes a vital position in various initiatives, including urban renewal, and real estate

development projects. LEDI plays an important role in promoting the economic and social development of Zaozhuang. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: LEDI received operational and financial support from the Zaozhuang government. The Zaozhuang government continued to inject capital, project-related assets, properties, equities of other companies and other kinds of assets into LEDI to expand its asset size and diversify its business. Besides, the Zaozhuang government will repurchase some infrastructure projects and provide policy supports to LEDI to ensure its business operation. Given that it is the key entity for infrastructure construction and state-owned assets operation in Zaozhuang, LEDI has an advantage in acquiring related resources and major projects. We believe LEDI is likely going to receive government support to support its daily business operation.

LEDI's Financial and Liquidity Position: LEDI's total assets showed a continuous growth trend in the past few years and reached RMB23.9 billion at end-September 2023, as the company actively participated in the infrastructure construction projects. The current assets of LEDI accounted for 64.3% of the total assets at end-September 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and investment properties. LEDI's financial leverage (total liabilities to total assets) increased to 55.0% and its adjusted debt increased to RMB7.0 billion at end-September 2023 from RMB1.0 billion at end-2020. LEDI's liquidity was tight. At end-September 2023, LEDI had a cash balance and unused credit facilities of RMB128.5 million and RMB1.0 billion, respectively, compared with its debt due within one year of RMB1.6 billion. Having said that, LEDI has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. LEDI also has other financing channels, such as bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Zaozhuang: Zaozhuang is a prefecture-level city of Shandong Province ("Shandong") and is located in the southern part of Shandong. Zaozhuang has jurisdiction over 5 districts, 1 county-level city and 1 national high-tech industrial development zone with a total land area of 4,564 square kilometers. Zaozhuang maintained medium-high economic growth during the past few years, with its GDP growth rate recording 8.3%, 4.5% and 6.4% in 2021, 2022 and 2023, respectively. Zaozhuang's GDP amount reached RMB215.7 billion in 2023, which was mainly driven by the secondary and tertiary industries.

The aggregate fiscal revenue of the Zaozhuang government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Zaozhuang government increased steadily to RMB18.1 billion in 2023 from RMB15.9 billion in 2021, while the contribution of tax revenue was reduced to 64.2% from 77.1% over the same period. The financial self-sufficiency of Zaozhuang was weak and continued deteriorating, with the budget deficit widening to 94.4% in 2023 from 72.4% in 2021. The government fund income, mainly originated from land sales revenue, remained relatively stable in the past few years and

reached RMB32.4 billion in 2023, accounting for nearly half of the aggregate revenue. The Zaozhuang government's debt expanded rapidly in 2021-2023, mainly due to the rise in special debts. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was elevated to 119.6% at end-2023 from 92.3% at end-2021.

Rating Sensitivities

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

We would consider upgrading LEDI's rating if (1) there is strengthened support from the Zaozhuang government (2) if there is an upgrade in our internal credit assessment on the Zaozhuang 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 LEDI'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.

Contact Information

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

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

Committee Chairperson
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

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

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