

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

HONG KONG, 9 April 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shandong Xintai Construction Group Co., Ltd. (“SXCG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Xintai Government’s Ownership and Supervision: The Xintai government holds the full ownership of SXCG through the State-owned Asset Operation Center of Xintai City’s fully-owned subsidiary, Xintai City Urban Construction Development Group Co. Ltd. The Xintai 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 Xintai 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 Xintai and Strategic Alignment: SXCG, as the key LIDC in Xintai, is primarily responsible for the investment, development and operation of infrastructure projects and resident life projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, SXCG is mainly engaged in urbanization construction, road and pipeline construction, healthcare and education, tourism and other infrastructure related projects with strong regional advantages. In addition, as the sole general construction contractor in Xintai, the company assumes a vital position in various initiatives, including urban renewal, new rural construction and real estate development projects. SXCG plays an important role in promoting the economic and social development of Xintai. Its

business operation and development have been aligned with the government's development plans.

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

SXCG's Financial and Liquidity Position: SXCG's total assets showed a continuous growth trend in the past few years and reached RMB11.5 billion at end-September 2023, as the government injected a large quantity of capital and transferred equities of other enterprises into the company in the past few years. The current assets of SXCG accounted for 47.3% of the total assets at end-September 2023, and the overall asset liquidity was moderately weak due to large amount of inventories and receivables. SXCG's financial leverage (total liabilities to total assets) increased to 47.3% and its adjusted debt increased to RMB471.0 million at end-September 2023 from RMB371.3 million at end-2022. SXCG's liquidity was tight. At end-September 2023, SXCG had a cash balance and unused credit facilities of RMB205.9 million and RMB10.0 million, respectively, compared with its debt due within one year of RMB451.5 million. Having said that, SXCG 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. SXCG also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Xintai: Xintai is a county-level city directly under the jurisdiction of Shandong Province and administered by Tai'an City ("Tai'an"), and is located in the eastern part of Tai'an. Xintai's economy kept moderate growth in the past three years, with its GDP growth rate recording at 5.3%, 4.4% and 6.6% in 2021, 2022 and 2023, respectively. Xintai's GDP reached RMB64.3 billion in 2023, and ranked the 2nd among all districts and county-level cities under the administration of Tai'an.

Xintai's governmental fiscal revenues primarily stem from budgetary income and government fund income. In 2023, the budgetary revenue of the Xintai government increased to RMB3.6 billion, up from RMB3.5 billion in 2022. The fiscal self-sufficiency of the Xintai government was relatively weak, with the budget deficit widened to 103.7% in 2023 from 84.8% in 2022. The government fund income, most of which was derived from land use rights revenue, declined to RMB1.9 billion in 2023 from RMB2.9 billion in 2022, owing to weak property market. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Xintai government surged to 194.9% at end-2023 from 110.8% at end-2021, mainly due to the increase in special debts.

Rating Sensitivities

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

We would consider upgrading SXCG's rating if there is an upgrade in our internal credit assessment on the Xintai 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 SXCG'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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