

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

HONG KONG, 23 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 Yimeng Industrial Group Co., Ltd. (“SYIG” 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 SYIG if needed, in light of its full ownership of SYIG through the Management Committee of Yihe New District (“Yihe ND MC”), the de facto local government of Yihe New District (“Yihe ND”), SYIG’s strategic importance as the important local investment and development company (“LIDC”) that is responsible for infrastructure construction, state-owned asset operation and industry development and investment in Yihe ND, and the linkage between the Yihe ND MC and SYIG, 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 SYIG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Yihe ND MC (authorized by the Linyi government) holds the full ownership of SYIG through the Yihe New District Finance Bureau (“Yihe NDFB”). The Yihe NDFB is the sole shareholder and the actual controller of the company. 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: SYIG, as an important LIDC in the Yihe ND, is mainly responsible for infrastructure construction, state-owned asset operation and industry development and investment within the region. The company undertakes the construction and operation of industrial parks, urban renewal and other projects. The company is also engaged in land consolidation, commodity sales and cultural tourism, 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: SYIG continued to receive financial subsidies and asset/capital injections from the Linyi government, via the Yihe ND MC and the Yihe NDFB, to support its business operations. We believe the government support will remain intact given the company's strategic importance in Yihe ND. Between 2021 and 2023, SYIG received financial subsidies amounting to RMB198.9 million from the local government to support SYIG's business operation. Over the same period, the company received asset and capital injections in the form of cash, lands, properties, equity transfers and other assets, which reached total about RMB4,851.3 million.

SYIG's Financial and Liquidity Position: SYIG's total asset size increased to RMB19.3 billion at end-2022 from RMB18.0 billion at end-2021, but dropped to RMB18.9 billion at end-2023, which was mainly due to the decrease in fixed asset. Although its total debt decreased to RMB2.8 billion at end-2023 from RMB3.3 billion at end-2021 (mainly due to the decrease in long-term debt), the short-term debt rose to 86.4% of the total debt at end-2023 from 75.9% at end-2021, which may indicate an increasing short-term debt service pressure. However, the company's financial leverage, as measured by debt/capitalization, remained low at the range of 18.5% and 22.4% from end-2021 to end-2023.

The liquidity of SYIG was weak. At end-2023, SYIG had unrestricted cash balance of RMB126.1 million, compared with its debt due within one year of RMB2,456.4 million. The company had unused credit facilities of RMB867 million at end-2023. Nevertheless, SYIG has accessed to various financing channels, including bank loans and non-traditional financing, to support its debt repayments and business operations. Moreover, we expect the company to roll over most of its short-term bank borrowings.

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, surged to 146.5% in 2023 from 92.5% in 2021, mainly due to the increase in special debt.

Rating Sensitivities

We would consider downgrading SYIG'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 SYIG, or (3) there is a downgrade in our internal credit assessment on the Linyi government.

We would consider upgrading SYIG'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 SYIG'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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