

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

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

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Xuchang government holds 100% ownership of XIG via the Xuchang Finance Bureau (“Xuchang FB”), and is the actual controller of the company. The Xuchang 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 Xuchang government has formulated a performance assessment mechanism for the company and appoints auditors to review the company’s operating performance and financial position on a periodic basis.

Strategic Importance to Xuchang and Strategic Alignment: XIG is the most important LIDC in Xuchang that is responsible for the infrastructure construction, industrial development and state-owned capital and asset operation in Xuchang. The company is engaged in the investment, construction and operation of infrastructure facilities, together with land development and affordable housing sales in the region. The company is also engaged in entrusted loans, guarantee, commodity sales, rental and leasing, 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: XIG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. We believe the government support will remain intact given the company's strategic importance in Xuchang. Between 2020 and the first nine months of 2023, the local government injected cash capital of RMB187.0 million into XIG, enlarging its paid-in capital to RMB1.6 billion at end-September 2023 from RMB1.4 billion at end-2020. During the same period, XIG received financial subsidies totaling around RMB1.89 billion from the local government. Meanwhile, the company received asset injections from the local government in the form of properties, sand and stone management rights, equity transfers and other assets, which reached about RMB10.1 billion.

XIG's Financial and Liquidity Position: XIG's total assets increased to RMB106.3 billion at end-September 2023 from RMB92.2 billion at end-2020, as the company actively participated in the infrastructure construction and land development projects in Xuchang. Its total debt also increased to RMB31.2 billion at end-September 2023 from RMB26.5 billion at end-2020. At end-September 2023, the short-term debt and long-term debt accounted for 31.7% and 68.3% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, was in the range of 35%-38% over the same period.

XIG's short-term debts repayment pressure was moderate. At end-September 2023, XIG had cash assets of RMB2,521 million (including RMB20 million of restricted cash), compared with its non-current debt due within one year of RMB9,888 million. Nevertheless, XIG has accessed to various financing channels, including bank borrowings, bond issuance and non-traditional financing (such as financial lease) to support its debt repayments and business operations. Its short-term bank borrowing (RMB1,270 million) was expected to be rolled over, and it had unused credit lines and available bond issuance quota of RMB14.6 billion and RMB6,700 million, respectively.

Economy and Fiscal Condition of Xuchang: Xuchang is a prefecture-level city of Henan Province ("Henan") and is located in the center of Henan, bordering Zhengzhou on the north. Xuchang maintained moderate economic growth during the past few years, with the GDP growth rate of 2.7%, 5.5% and 1.8% in 2020, 2021 and 2022, respectively. Xuchang's GDP reached RMB374.7 billion in 2022, which was ranked 4th among 18 prefecture-level cities of Henan.

The aggregate fiscal revenue of the Xuchang government was mainly derived from the budgetary revenue and transfer payment from the higher government. In 2020-2022, the budgetary revenue of the Xuchang government increased from RMB18.2 billion to RMB20.4 billion, with the contribution of tax revenue fluctuating between 64.9% and 67.1% over the same period. The financial self-sufficiency rate of Xuchang was weak but improving, with the budget deficit narrowing to 70.1% in 2022 from 100.3% in 2020. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 148.1% at end-2022 from 91.3% at end-2020.

Rating Sensitivities

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

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