

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

HONG KONG, 16 April 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Yantai Zhengyuan Investment Holding Group Co., Ltd (“YZIHG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Laishan government is the sole shareholder and the actual controller of the company via the Laishan District State-owned Assets Supervision and Administration Bureau (“Laishan SASAB”). The Laishan 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 Laishan government has formulated a performance assessment mechanism for the company and appoints auditors to review the company’s operating performance and financial position.

Strategic Importance to Laishan and Strategic Alignment: YZIHG is the most important LIDC in Laishan that is responsible for infrastructure construction and state-owned asset operation within the region. YZIHG is engaged in the construction of a wide range of infrastructure projects in Laishan, including roads, industrial parks and other public facilities. The company is also engaged in commodity sales, property sales, engineering construction, leasing, property services, senior care services and consulting services, 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: YZIHG 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 Laishan. Between 2021 and 2023, the local government injected cash capital of RMB843.5 million into YZIHG, enlarging its paid-in capital to RMB1.0 billion at end-2023 from RMB0.2 billion at end-2021. During the same period, YZIHG received financial subsidies totaling around RMB137.3 million from the local government. Meanwhile, the company received asset injections from the local government in the form of cash, buildings, lands, properties, equity transfers and other assets, which reached about RMB1.0 billion.

YZIHG's Financial and Liquidity Position: YZIHG's total asset size grew moderately to RMB23.6 billion at end-2023 from RMB20.2 billion at end-2021, which was largely attributed to the increase of inventory. The company's financial leverage, as measured by debt/capitalization, rose to 26.4% at end-2023, compared with 14.0% at end-2021. YZIHG's long-term debt represented 37.1% of its total debt at end-2023, compared with 46.9% at end-2021, which implied an increase of the proportion of the short-term debt to the total debt at end-2023.

YZIHG's short-term debt servicing pressure is manageable. At end-2023, YZIHG had a cash of RMB1.3 billion (including restricted cash of RMB0.3 billion), together with the unused credit facilities of RMB6.0 billion, compared with its debt due within one year of RMB3.6 billion. In addition, YZIHG has access to various financing channels to support its debt repayment and business operations.

Economy and Fiscal Condition of Laishan: Laishan is a district of Yantai City ("Yantai"), Shandong Province, and it is located in the main city center of Yantai. Laishan maintained steady economic growth in recent years, with the GDP growth of 5.9% and 6.1% in 2022 and 2023, respectively. Laishan's GDP amount was ranked 8th in Yantai in 2023 (out of a total 13 districts/counties). GDP per capita of Laishan was RMB131,240 in 2023, which was higher than the GDP per capita of China (RMB89,358) but lower than that of Yantai (RMB143,964).

The aggregate fiscal revenue of the Laishan government was mainly derived from the budgetary revenue and transfer payment. Laishan's budgetary revenue increased by 17.7% year-on-year to RMB5.0 billion in 2023. The contribution of the tax revenue declined to 65.2% in 2023 from 84.5% in 2021, mainly due to the tax benefit policies. The fiscal self-sufficiency rate of the Laishan government was high. It achieved budget surplus in recent years, which reached 21.4%, 11.9% and 21.1% in 2021, 2022 and 2023, respectively. Given the Laishan government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 145.9% at end-2023 from 115.5% at end-2021.

Rating Sensitivities

We would consider downgrading YZIHG's rating if (1) there is perceived weakening in support from the Laishan government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Laishan

government's ownership of YZIHG, or (3) there is a downgrade in our internal credit assessment on the Laishan government.

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