

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

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

The Issuer Credit Rating reflects a high possibility that the People’s Government of Guangdong Province (“Guangdong government”) and the People’s Government of Zhuhai City, Guangdong Province (“Zhuhai government”) would provide strong support to ZHG if needed, in light of their ownership of ZHG, ZHG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for urban construction and operation, industrial and finance development, and state-owned asset management in Zhuhai City, Guangdong Province (“Zhuhai”), and the linkage between the government and ZHG, including supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Guangdong and Zhuhai government may face significant negative impact on its reputation and financing activities if ZHG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Zhuhai government directly holds the majority ownership of ZHG through Zhuhai State-owned Assets Supervision and Administration Commission (“Zhuhai SASAC”), and is the actual controller of the company. The remaining stake is held directly by the Guangdong Provincial Department of Finance (“Guangdong DF”). The Zhuhai government 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 government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Zhuhai and Strategic Alignment: Zhuhai’s municipal state-owned enterprises are organized into five major asset groups according to the government’s initiative, with ZHG emerging as a key player in infrastructure and urban operations, modern finance and strategic emerging industries. Particularly dominant in Zhuhai’s real estate development sector, ZHG’s involvement in urban development projects underscores its pivotal role in forming the city’s landscape and driving economic development. Also, ZHG possesses a wide range of financial licenses to facilitate and promote Zhuhai’s modern financial sector.

Furthermore, through initiatives to upgrade industries and foster cooperation with Macau, ZHG plays a crucial role in integration and development of the Greater Bay Area. ZHG's alignment with Guangdong and Zhuhai governments' development plans, substantial contributions to GDP, fixed asset investment and tax revenue in the area, as well as its efforts in creating industrial clusters and employment opportunities, highlight its significant impact on the economic and social development in Guangdong Province ("Guangdong") and Zhuhai.

Ongoing Government Support: ZHG continued to receive financial subsidies, mainly including operating subsidies and tax breaks, from the local government to maintain its business operation. ZHG received subsidies of RMB1.5 billion from 2020 to the first nine months of 2023. The Zhuhai SASAC has increased the company's capital by RMB15.8 billion through capital injections since 2021, thereby improving ZHG's capital strength. Additionally, the Zhuhai government continues to transfer assets and equity of other state-owned enterprises to the company gratuitously, with the aim of integrating resources under ZHG's management. The Zhuhai government implements related policies to ensure the financial security, tax benefits and other support to ZHG's main businesses. Given that it is the key entity for urban operation and state-owned asset management in Zhuhai, ZHG has an advantage in acquiring related resources and major projects. We believe ZHG is likely going to receive government support, including capital and high-quality assets, equities of other companies, operational subsidies, tax breaks, favorable policies and other kind of government grants to support its daily business operation.

Largest LIDC Headquartered in Zhuhai with Diversified Operation across China: ZHG stands out as the largest LIDC in terms of asset size in Zhuhai and the third largest LIDC in Guangdong among all LIDCs. In the 2023 list of China's top 500 enterprises, ZHG secured the 169th spot. Its operational revenue remains substantial, reaching RMB157.6 billion and RMB129.4 billion in 2022 and the first nine months of 2023, respectively. The company's revenue sources are varied, with a business model structured around three major industrial clusters: technology, finance, and urban development (including urban operations, real estate development, trade services, and modern services). Trade logistics and real estate development serve as the primary revenue drivers, although their contributions to total revenue remained below 50% of ZHG's total revenue between 2020 and 2022. In the real estate sector, ZHG ranked 14th in terms of contracted sales nationwide in 2023. While ZHG focuses on developing its business in Zhuhai, it also extends its operations to various regions within Guangdong and other provinces across China, which underscores its extensive operational footprint.

ZHG's Financial and Liquidity Position: ZHG's total assets showed a continuous growth trend in the past years and reached RMB715.8 billion at end-September 2023, mainly due to the increase of inventories, which have steadily increased in tandem with the expansion of the company's urban operation and real estate development business. The current assets accounted for 76.4% of total assets at end-September 2023. The overall asset liquidity was moderate, with RMB97.0 billion of its assets being pledged to secure bank loans and general banking facilities. ZHG's financial leverage (total liabilities to total assets) was 77.2% and its adjusted debt increased to RMB336.1 billion at end-September 2023. The liquidity of

ZHG was sufficient. At end-September 2023, ZHG had an unrestricted cash balance and unused credit facilities of RMB70.1 billion and RMB268.1 billion, respectively, compared with its debt due within one year of RMB125.4 billion. Besides, ZHG employs a multifaceted financing strategy, which utilizes traditional debt channels (bank loans and bond issuance) alongside innovative methods like asset securitization and sale and repurchase agreements to support its capital-intensive projects, debt repayment and business operations, as well as maintaining a balanced risk management approach.

Economy and Fiscal Condition of Zhuhai: Zhuhai is a prefecture city of Guangdong and it is one of the five Special Economic Zones. Zhuhai recorded an economic growth in 2023, achieving a GDP of RMB423.3 billion, with a year-on-year growth of 3.8%. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 44.3% and 54.1% of Zhuhai's aggregate GDP, respectively, in 2023.

The aggregate fiscal revenue of the Zhuhai government was mainly derived from the budgetary revenue and government fund income. The Zhuhai government's budgetary revenue increased to RMB48.2 billion in 2023 from RMB43.7 billion in 2022, marking a growth of 10.3%, the highest among Guangdong. However, there was a significant decrease in government managed fund income from RMB49.6 billion in 2021 to RMB8.7 billion in 2023, mainly due to the fluctuation of land use right transfer income amid challenging property market conditions. The government debt of Zhuhai increased significantly to RMB132.5 billion at end-2023 from RMB89.1 billion at end-2021, mainly due to the increase in special debt to support a series of major projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 31.2% at end-2023 from 23.0% at end-2021.

Rating Sensitivities

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

We would consider upgrading ZHG's rating if (1) there is strengthened support from the government, or (2) there is an upgrade in our internal credit assessment on the Guangdong 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 ZHG'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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