

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhengzhou Jinshui Holdings Group Co., Ltd.

HONG KONG, 10 May 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Zhengzhou Jinshui Holdings Group Co., Ltd. (“ZJHG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Jinshui government indirectly holds the full ownership of ZJHG via the Jinshui Finance Bureau and Henan Jinshui Investment Management Company Limited. The actual controller of the company is the Jinshui Finance Bureau. The Jinshui 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 Jinshui 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 Jinshui and Strategic Alignment: ZJHG, as the most important LIDC in Jinshui, is mainly responsible for resettlement housing development and infrastructure construction within the region. The company is also engaged in management fee, properties sales, infrastructure construction, leasing, parking service, property management service, 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: ZJHG 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 Jinshui. Between 2020 and the first nine months of 2023, ZJHG received financial subsidies totaling around RMB27.4 million from the local government. Over the same period, the company received asset and capital injections in the form of cash, operation rights, property, debt transfer and other assets, which reached about RMB5.6 billion.

ZJHG's Financial and Liquidity Position: ZJHG's total asset increased steadily to RMB19.8 billion at end-September 2023 from RMB12.7 billion at end-2020, as the company actively participated in resettlement housing and infrastructure project development in Jinshui. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. ZJHG's total debt reached RMB6.9 billion at end-September 2023, which increased significantly compared with RMB2.9 billion at end-2020. However, the company's financial leverage, as measured by debt/capitalization decreased to 46.9% from 51.5% over the same period, which was mainly due to the larger increase in the company's equity.

The short-term debt servicing pressure of ZJHG was moderate. At end-September 2023, the company had cash balance of RMB628 million (including restricted cash of RMB2 million) and unused credit facilities of RMB5.7 billion, while its debt due within one year was RMB2.0 billion. Besides, the company has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of Jinshui: Jinshui is a district under the jurisdiction of Zhengzhou City ("Zhengzhou"), Henan Province, and located in the northeastern part of Zhengzhou's main urban area. Jinshui's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 1.8% and 6.7% in 2021, 2022 and 2023, respectively. Jinshui's GDP amount reached RMB205.8 billion in 2023, which was ranked 1st among all jurisdictions of Zhengzhou.

The Jinshui government's aggregate revenue is mainly derived from budgetary revenue and transfer payment from higher government, while government fund income is very limited. Budgetary revenue of the Jinshui government was on a downward trend in the past few years and reached RMB11.0 billion in 2023, with tax revenue accounting for 89.2% of budgetary revenue. Nevertheless, the fiscal self-sufficiency rate of the Jinshui government was high and it recorded budget surplus in the past few years, which reached 53.0% in 2023. The fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 43.6% at end-2023 from 12.2% at end-2021, due to the increase in special debt and the decrease in aggregate revenue.

Rating Sensitivities

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

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

Contact Information

Primary Analyst
Karis Fan, CESGA
Analyst
(852) 3462 9579
karis.fan@lhratingsglobal.com

Secondary Analyst
Toni Ho, CFA, FRM
Senior Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Committee Chairperson
Joyce Huang, CFA
Managing Director
(852) 3462 9586
joyce.huang@lhratingsglobal.com

Business Development Contact
Joyce Chi, CESGA
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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