

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yangzhou Hanjiang State-owned Capital Investment Group Co., Ltd.

HONG KONG, 3 June 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Yangzhou Hanjiang State-owned Capital Investment Group Co., Ltd. (“HJSI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Hanjiang District (“the Hanjiang government”) would provide very strong support to HJSI if needed, in light of its full ownership of HJSI, HJSI’s strategic importance as an important local investment and development company (“LIDC”) responsible for project development in Yangzhou’s Hanjiang District (“Hanjiang”), and the linkage between the Hanjiang government and HJSI, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Hanjiang government may face significant negative impact on its reputation and financing activities if HJSI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: Finance Bureau of Hanjiang District holds 100% shares of HJSI and is the company’s actual controller. The Hanjiang government has strong control and supervision over the company, including management appointment, decision on its strategic development, and supervision of its major investment and funding plans. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise its operating performance and financials on a periodic basis.

Strategic Importance to Hanjiang and Strategic Alignment: According to Hanjiang’s State Owned Enterprises reorganization plans in 2023, HJSI is positioned as a major platform in Hanjiang. The company is responsible for project development in Jiangsu Yangzhou Weiyang Economic Development Zone, Yangzhou National High Technology and New Technology Industry Development Zone, and several other industrial parks within the region. The company’s business operation plays a significant role in improving infrastructure and promoting local industrial development. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: The Hanjiang government provides ongoing support to HJSI. The Hanjiang government initiated two rounds of cash capital injections to HJSI amounting to

RMB700 million and RMB5.0 billion in 2021 and 2023, respectively. The company also received assets injection and operational support from the local government between 2021 and 2023. We expect the support from the local government to remain intact given HJSI's strategic importance in Hanjiang.

Economy and Fiscal Condition of Hanjiang: Hanjiang is a municipal district under the jurisdiction of Jiangsu's Yangzhou City. Hanjiang's GDP growth rate fluctuated in the past few years, owing to Covid's disruption. The GDP amount of Hanjiang reached RMB120.5 billion in 2023, which was ranked 2nd out of six jurisdictions of Yangzhou. Located in the northwestern part of Yangzhou's urban area, Weiyang EDZ focuses on the development of four leading industries, namely equipment manufacturing, automobile and parts, medicine and health, software development.

The budgetary revenue of Hanjiang government rebounded to RMB5.1 billion in 2023 from RMB4.5 billion in 2022. The fiscal self-sufficiency capacity of the Hanjiang government was moderately weak, with budget deficit of 58.3% in 2023, despite the narrowing trend in the past few years. The government fund income, accounting for c.40% of its aggregate fiscal revenue and mainly generated from land sales, remained relatively weak, owing to the property market downturn.

The outstanding debt of the Hanjiang government continued to grow in the past three years, mainly due to the new issuance of special debts to support local public projects. As a result, the Hanjiang government's fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 100.8% at end-2023 from 72.3% at end-2021.

HJSI's Financial and Liquidity Position: HJSI's total asset increased rapidly to RMB33.8 billion at end-2023 from RMB25.9 billion at end-2021 as the company actively participated in Hanjiang's project development. The company relied on borrowings as well as asset and capital injections from local government to fund its asset expansion. Its company's financial leverage, as measured by debt/capitalization, was on a downward trend and stayed at a manageable level of 34.4% at end-2023.

However, HJSI's asset liquidity was weak, as the company had accumulated sizable inventories and accounts receivables from its project development activities, which added up to RMB25.5 billion at end-2023, representing 42.7% of its total asset. These project related assets usually take a long time to monetize due to the protracted construction and payment collection period (usually five years and some can be up to ten years). In addition, the company had other receivables amounting to RMB14.5 billion, mainly due from local government agencies and local SOEs. Their repayment schedules are highly subject to the fiscal conditions of the local government.

The short-term debt servicing pressure of HJSI was moderately high. The company heavily relied on bank borrowings and had used most of its bank facilities. At end-2023, the company had total credit lines of RMB8.4 billion, of which only RMB500 million was unused. The company had cash balance of RMB2.0 billion (including restricted cash of RMB1.3 billion),

compared with its debts due within one year of RMB2.6 billion. Yet we expect the company to roll-over most of its short-term bank borrowings (end-2023: RMB1.1 billion).

Rating Sensitivities

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

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