

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Ningbo Mingshan Construction Development Group Co., Ltd.

HONG KONG, 14 June 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Ningbo Mingshan Construction Development Group Co., Ltd. (“NMCD” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Fenghua government holds 100% ownership of NMCD via the State-owned Assets Management Center of Fenghua (“Fenghua SAMC”), which is both the sole shareholder and actual controller of the company. The Fenghua 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 Fenghua government formulates 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: NMCD is an important LIDC in Fenghua. It is the sole LIDC that is responsible for the project construction and operation, water supply and resettlement housing construction in the western region of Fenghua, as well as tourist attraction development and construction in Xikou Town tourist area (“Xikou tourist area”) in Fenghua. 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: NMCD continued to receive financial subsidies and asset/capital injections from the Fenghua government to support its business operations. We believe the support will remain intact given the company's strategic importance in Fenghua. Between 2022 and 2023, the company received asset and capital injections in the form of cash, operating assets, equity transfers and other assets, which reached about RMB4.5 billion

NMCD's Financial and Liquidity Position: NMCD's total assets increased to RMB19.5 billion at end-2023 from RMB14.6 billion at end-2021, as the company actively participated in the infrastructure construction and project construction and operation business in Fenghua, as well as the asset injection. Its total debt reached RMB8.2 billion at end-2023, which was 24.3% higher than that at end-2021 (RMB6.6 billion). At end-2023, the short-term debt and long-term debt accounted for 31.8% and 68.2% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, ranged between 45.5% and 54.1% from 2021-2023.

NMCD's short-term debt repayment pressure was moderately high. At end-2023, NMCD had cash balance of RMB405.9 million (including RMB25.0 million of restricted cash), compared with its debt due within one year of RMB2,609.4 million. NMCD mainly relied on external financing and has access 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. At end-2023, NMCD had unused credit facilities of RMB1,736.6 million. Therefore, successfully rolling over its short-term borrowing or obtaining additional support is important for the company to maintain its liquidity.

Economy and Fiscal Condition of Fenghua: Fenghua is a district of Ningbo, Zhejiang Province ("Zhejiang"), and located in the south of Ningbo's main urban area. Fenghua maintained steady economic growth during the past three years, with its GDP growth rate at 5.6%, 2.4% and 4.0% in 2021, 2022 and 2023, respectively. The GDP of Fenghua reached RMB96.0 billion in 2023, which was ranked 8th among all Ningbo's jurisdictions. The economic structure of Fenghua was mainly driven by the secondary and tertiary industries, which accounted for 60.1% and 36.1% of its GDP in 2023, respectively.

The budgetary revenue of the Fenghua government increased to RMB8.7 billion in 2023 from RMB7.4 billion in 2021, while the contribution of tax revenue was reduced to 69.4% from 86.6% over the same period. The financial self-sufficiency of Fenghua was moderate, with the budget deficit narrowing to 25.3% in 2023 from 27.2% in 2021. The government fund income decreased significantly to RMB1.0 billion in 2023 from RMB19.7 billion in 2021. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 115.7% at end-2023 from 44.4% at end-2021.

Rating Sensitivities

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

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

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

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.