

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hubei Sanjiang Industrial Investment Co., Ltd.**

HONG KONG, 5 July 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Hubei Sanjiang Industrial Investment Co., Ltd. (“HSII” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yidu (“the Yidu government”) would provide strong support to HSII if needed, in light of its indirect majority ownership of HSII, HSII’s strategic importance as an important local investment and development company (“LIDC”) responsible for project construction and industrial operation in Hubei’s Yidu, and the linkage between the Yidu government and HSII, 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 HSII encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** HSII is the core subsidiary of Yidu Guotong Investment Development Co., Ltd. (“YGID”), a key LIDC which 89.95% shares are ultimately owned by Yidu State-owned Asset Supervision and Administration Bureau (“Yidu SASAB”). Yidu SASAB is HSII’s actual controller. The Yidu government has strong 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 and Alignment:** HSII is an important LIDC responsible for project construction and industrial operation in Yidu. The company mainly develops and operates industrial parks and scenic spots in Yidu to promote local industries and tourism development, which are aligned with the Yidu government’s economic and social development plans. The company also engages in properties sales, building materials, water supply and leasing businesses.

**Ongoing Government Support:** The Yidu government provides support to HSII. Between 2021 and 2023, the Yidu government injected assets such as mining rights, use rights of forest and equity of other local SOEs, totally valued at RMB3.5 billion, into HSII. Over the same period, the company received operational subsidies from the local government. We expect the support from the local government to remain intact given HSII’s strategic importance in Yidu.

***Economy and Fiscal Condition of Yidu:*** Yidu is a county-level city directly under the jurisdiction of Hubei Province and managed by Yichang City. It is listed as Top 100 Counties in China in 2022, with a good industrial development. Yidu maintained rapid economic growth in the past three year, with growth rates recording at 19.7%, 7.6% and 7.2% in 2021, 2022 and 2023, respectively. Yidu's GDP reached RMB92.1 billion in 2023, which was ranked 1st among 13 districts and counties under the jurisdiction of Yichang.

The Yidu government's budgetary revenue increased rapidly to RMB3.0 billion in 2023 from RMB2.0 billion in 2021, while Transfer payment from higher governments also increased steadily to RMB2.7 billion from RMB2.1 billion. However, the fiscal self-sufficiency of Yidu government was weak and it recorded a budget deficit of 91.4% in 2023. Moreover, Yidu's government fund income decreased to RMB1.4 billion in 2023 from RMB1.6 billion in 2021 amid weak property market.

The outstanding debt of the Yidu government continued to grow due to the new issuance of special debts to support public project development. At end-2023, the Yidu government's outstanding debt increased to RMB8.2 billion from RMB6.4 billion at end-2021. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 123.5% at end-2022 from 110.8% at end-2021, then dropped to 116.0% at end-2023, mainly due to the larger increase in aggregate revenue.

***HSII's Financial and Liquidity Position:*** HSII's total asset increased steadily to RMB22.2 billion at end-March 2024 from RMB17.2 billion at end-2021, owing to the company's active participation in Yidu's project construction and industrial operation, as well as the asset injection. Its total debt reached RMB5.8 billion at end-March 2024, which was 62.9% higher than that at end-2021 (RMB3.6 billion). Yet its financial leverage, as measured by debt/capitalization, stayed large stable at a manageable level of 30%-35%.

HSII's asset liquidity was relatively weak. The company had a large amount (RMB7.0 billion) of intangible assets (mainly use rights of land and water area as well as sand mining rights injected by local government. Moreover, HSII's project development activities accumulated significant project related assets, which usually take a long time to monetize owing to protracted construction and payment collection periods.

The short-term debt servicing pressure of HSII was moderately high. At end-March 2024, the company had cash balance of RMB1.69 billion (including restricted cash of RMB0.95 billion), while it had debt due within one year of RMB2.40 billion. The company mainly relied on bank borrowings and other non-traditional financings to support its debt repayments and business operations. At end-March 2024, the company had unused credit line of RMB598 million.

## **Rating Sensitivities**

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

ownership of HSII, or (3) there is a downgrade in our internal credit assessment on the Yidu government.

We would consider upgrading HSII 's rating if (1) there is strengthened support from the Yidu government, or (2) there is an upgrade in our internal credit assessment on the Yidu 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 HSII'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](http://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](mailto:karis.fan@lhratingsglobal.com)

Secondary Analyst  
Roy Luo, FRM, CESGA  
Director  
(852) 3462 9582  
[roy.luo@lhratingsglobal.com](mailto:roy.luo@lhratingsglobal.com)

Committee Chairperson  
Toni Ho, CFA, FRM  
Senior Director  
(852) 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Media Contact  
Alice Wang  
(852) 3462 9568  
[alice.wang@lhratingsglobal.com](mailto:alice.wang@lhratingsglobal.com)

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