

Hing Yip Holdings Limited

Surveillance Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	7 September 2024

Key Figures of Nanhai and CIH

	2022	2023
Nanhai (RMB billion)		
GDP	373.1	393.1
GDP growth rate (%)	2.2	7.3
Budgetary revenue	25.8	26.1
Government fund	18.4	19.7
Transfer payment	6.4	5.3
Budgetary expenditure	26.9	28.2
HYH (HKD billion)		
Assets	9.8	7.7
Equity	2.1	1.8
Revenue	0.77	0.41

Source: Public information, HYH and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Hing Yip Holdings Limited (“HYH” or “the company”) (formerly known as China Investments Holdings Ltd.) to ‘BBB+’ from ‘BBB-’; Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating upgrade reflects an upgrade in our internal credit assessment on the People’s Government of Nanhai District, Foshan City (“Nanhai government”), and the company’s increasing strategic importance in Nanhai, as the company is deepening its roles in the regional economic development and local residents’ livelihoods under the guidance of the Nanhai government. The company has upgraded and expanded its elderly care facilities and business after the integration of several public elderly care institutions in towns and sub-districts in Nanhai. Besides, it is aligned with the development plans of the Nanhai government and strengthened HYH’s role as the key entity responsible for elderly care and wellness in Nanhai.

We believe this continues to present a high possibility that the Nanhai government would provide strong support to HYH if needed, in light of its indirect majority ownership of HYH, HYH’s strategic position as a key local investment and development company (“LIDC”) that is responsible for elderly care and wellness, financial leasing, big data development and civil explosives in Nanhai and the linkage between the Nanhai government and HYH, including supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Nanhai government may face significant negative impact on its reputation and financing activities if HYH encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Nanhai government indirectly holds the majority ownership of HYH via the Nanhai State-owned Assets Supervision and Administration Commission’s (“Nanhai SASAC”) 90% owned Guangdong Nanhai Holding Group Co. Ltd. (“GNHG”), and is the actual controller of the company. The Nanhai government does not directly participate in the company’s daily operations, yet it provides support and guidance on significant matters such as guiding the reform and restructuring of the company, increasing and preserving the value of the company’s state-owned assets, promoting the optimal allocation of state-owned assets. HYH has a non-executive director appointed by the Nanhai government through GNHG, who exercises supervisory functions on the board of directors. In addition, the Nanhai government has an assessment mechanism over the company and board of directors, and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: HYH plays an important role in promoting Nanhai’s regional economic development and local residents’ livelihoods, as well as social services, by engaging in businesses like elderly care, financing leasing, big data and civil explosives in the region. Aligned with the government’s development strategies, HYH became

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

the region's largest elderly care provider in 2023 by acquiring several public institutions in towns and sub-districts in Nanhai under the guidance of the Nanhai government. The company's financial leasing operations, focused on environmental projects like sewage treatment, waste incineration, and new energy power generation, also experienced rapid growth over the past year. Besides, being the sole Hong Kong-listed company controlled by the Nanhai government, HYH also plays a significant role as the Nanhai government's exclusive overseas investment and financing platform.

Ongoing Government Support: HYH received operational and financial support from the government. It received a subsidy totaling around RMB216.5 million from 2021 to the first six months of 2024 and special support funds from the Nanhai government to aid in its industrial park development and big data initiatives. In addition, the Nanhai government has implemented related policies to ensure the financial security, tax benefits, and other support for HYH's elderly care business. Given that it is the key entity for elderly care in Nanhai, HYH has an advantage in acquiring related resources and major projects. We believe HYH is likely going to receive government support, including operational subsidies, tax breaks and favorable policies to support its daily business operation.

HYH's Financial and Liquidity Position: HYH's total assets showed a continuous growth trend from 2021 to 2023, but decreased to HKD7.7 billion at end-June 2024, mainly due to the decrease of assets classified as held for sale. Non-current assets accounted for 63.9% of total assets at end-June 2024, while the overall asset liquidity was moderate, with 56.7% of HYH's assets being pledged to secure bank loans and general banking facilities. HYH's financial leverage (total liabilities to total assets) was 76.5% and its bank-related debt decreased to HKD5.2 billion at end-June 2024. Liquidity was sufficient as HYH had a cash balance and unused credit facilities of HKD1.1 billion and RMB2.8 billion, respectively, compared with its debt due within one year of HKD2.5 billion at end-June 2024. Besides, HYH has access to various financing channels, including bank loans, shareholder loans and non-traditional financing, to support its debt repayment and business operations.

Nanhai's Economy and Fiscal Condition: Nanhai's economic growth rate accelerated to 7.3% in 2023 from 2.2% in 2022, and the GDP amount reached RMB393.1 billion in 2023, which was ranked 2nd among all Foshan's jurisdictions. The economic structure of Nanhai was mainly driven by the secondary and tertiary industries, which accounted for 43.8% and 54.5% of its GDP in 2023, respectively. Nanhai Government's budgetary revenue increased to RMB26.1 billion in 2023 from RMB25.8 billion in 2022, with the contribution of tax revenue elevated to 59.1% from 55.9% over the same period. The government managed fund income of the district also increased to RMB19.7 billion in 2023, representing a year-over-year growth rate of 7.2%. Having said that, the government debt ratio increased to 147.4% in 2023 from 121.6% in 2022, mainly due to the increase in special debt to support a series of major projects.

Rating Sensitivities

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

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



Company Profile

HYH was registered in Bermuda in 1992 and subsequently registered in Hong Kong in 1993. It was listed on the Hong Kong Stock Exchange the same year under the stock code 00132. The company's authorized share capital is 3 billion shares, with approximately 1.712 billion shares issued and a registered capital of HKD172 million. HYH was majority owned and controlled (84.19%, including convertible bonds) by Glories Holdings (HK) Limited, a subsidiary of GNHG as of end-June 2024. 90% of GNHG's share was held by Nanhai SASAC, while the other 10% was held by Guangdong Finance Department. The Nanhai government is the actual controller of the company.

HYH's business mainly focuses on wellness elderly care business, financial leasing and other businesses like big data and civil explosives business within Nanhai. It holds a certain degree of monopoly in some of its businesses within Nanhai.

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