

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Rizhao Luda Municipal Landscape Engineering Co., Ltd.

HONG KONG, 1 November 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Rizhao Luda Municipal Landscape Engineering Co., Ltd. (“RLML”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Donggang District, Rizhao City (“Donggang government”) would provide strong support to RLML if needed, in light of its indirect full ownership of RLML, RLML’s strategic importance as the key entity for municipal engineering and landscape greening projects in Donggang District, Rizhao City (“Donggang”) and the linkage between the local government and RLML, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Donggang government may face significant negative impact on its reputation and financing activities if RLML encounters any operational and financial difficulties.

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

Key Rating Rationales

The Government’s Ownership and Supervision: The State-owned Assets Supervision and Administration Bureau of Donggang District (“Donggang SASAB”), as the actual controller, holds 100% shares of RLML through Rizhao Donggang Urban Construction Investment Co., Ltd. (“RDUC”). The Donggang government has strong control and supervision over the company, including the appointment of senior management, decisions on its strategic development, and supervision of its major investment and funding plans. In addition, the local government has an assessment mechanism over the company and periodically appoints auditors to supervise its operating performance and financials.

Strategic Importance to Donggang and Strategic Alignment: RLML, as an important local investment and development company (“LIDC”) in Donggang, primarily undertakes the construction and maintenance of essential infrastructure such as roads, bridges, flood control systems, and sewage treatment, enhancing urban functionality and residents’ living conditions. It also engages in urban beautification and greening projects, improving the city’s image and liveability. RLML plays an important role in promoting the region’s economic and social development. Its business operations and strategic planning have been aligned with the local government’s development plans.

Strong Government Support: RLML receives ongoing operational subsidies and asset/capital injections from the local government to support its business operations. Between

2021 and the first six months of 2024, RLML received operational subsidies totaling RMB1.3 million from the local government. Over the same period, RLML received asset and equity injections in the form of capital, real estate assets, projects assets and other state-owned assets. We believe RLML will likely receive strong support from the local government in the coming years considering its strategic importance in Donggang.

Economy and Fiscal Condition of Donggang: Donggang is one of the districts under the jurisdiction of Rizhao. Its GDP growth rate has fluctuated over the past three years, with rates of 11.3%, 2.0% and 5.8% in 2021, 2022 and 2023, respectively. The GDP amount of Donggang reached RMB65.1 billion in 2023, which was ranked 1st among all jurisdiction in Rizhao.

The budgetary revenue of the Donggang government rebounded to RMB5.2 billion in 2023. It maintained a strong financial self-sufficiency with a budget surplus of 4.4% in 2023. Transfer payments from higher government have remained substantial over the past three years, amounting to RMB7.9 billion in 2023. Meanwhile, government fund income was modest at RMB29.0 million in 2023. The outstanding amount of the Donggang government's debt continued to grow between 2021 and 2023, mainly due to the rise in special debts. Its government debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 86.3% at end-2023 from 85.1% at end-2021.

RLML's Financial and Liquidity Position: RLML's total assets rose to RMB18.8 billion at end-2023 from RMB10.9 billion at end-2021, but declined to RMB15.8 billion at end-June 2024 due to a reduction in investment assets. The company's total debt increased to RMB4.4 billion at end-June 2024 from RMB1.4 billion at end-2021, with a high proportion of short-term debt (81.7% at end-June 2024). The company's financial leverage, as measured by total liabilities/total asset, increased from 13.9% to 40.3% over the same period.

In addition, RLML's asset liquidity was weak. The company's project development activities accumulated sizeable inventories and receivables, accounting for 69.4% of total asset at end-June 2024. These assets usually take a long time to monetize. Moreover, RLML's short-term debt servicing pressure was moderately high. The company had a cash balance of RMB992.6 million at end-June 2024, compared to its short-term debts of RMB3.6 billion. The company mainly relies on external financing and has access to various financing channels, including bank loans and non-traditional funding, to support its debt repayment and business operations. At end-June 2024, the company had unused credit facilities of RMB548.0 million.

Rating Sensitivities

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

We would consider upgrading RLML 's rating if (1) there is strengthened support from Donggang government, or (2) there is an upgrade in our internal credit assessment on the Donggang 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 RLML's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 31 July 2024, 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. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

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