

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yutai County Kangquan Agricultural Development Co., Ltd.

HONG KONG, 5 December 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Yutai County Kangquan Agricultural Development Co., Ltd. (“YCKAD”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yutai, Jining City (“Yutai government”) would provide very strong support to YCKAD if needed, in light of its indirect full ownership of YCKAD, YCKAD’s strategic importance as the key entity for market-oriented operations and agricultural development in Yutai County, Jining City (“Yutai”) and the linkage between the local government and YCKAD, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Yutai government may face significant negative impact on its reputation and financing activities if YCKAD encounters any operational and financial difficulties.

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

Key Rating Rationales

The Government’s Ownership and Supervision: The State-owned Assets Supervision and Administration Bureau of Yutai County (“Yutai SASAB”), as the actual controller, holds the full ownership of YCKAD through Shandong Xingyu Investment and Construction Group Co., Ltd. (“SXICG”, “BBB-/Stable”). Yutai 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 Yutai and Strategic Alignment: YCKAD, as an important local investment and development company (“LIDC”) in Yutai, primarily responsible for agricultural project development, landscaping, and municipal public engineering in Yutai. It serves as the main implementation platform for the market-oriented transformation of state-owned enterprises in Yutai and is a crucial part of the reform of local LIDCs. YCKAD 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: As an important part of the LIDC reform in Yutai, the company benefits from favorable conditions that facilitate project acquisition and resource access. There are plans for the allocation of revenue-generating state-owned assets, such as land and buildings, to enhance the company's operational capabilities and future growth. Additionally, the government provides ongoing financial support to strengthen the company's capital capabilities.

Economy and Fiscal Condition of Yutai: Yutai is one of the counties under the jurisdiction of Jining. Yutai's GDP growth rate has fluctuated over the past three years, with rates of 9.3%, 4.4% and 6.2% in 2021, 2022 and 2023, respectively. The GDP amount of Yutai reached RMB24.6 billion in 2023, which was ranked 12th among all jurisdiction in Jining City.

The aggregate fiscal revenue of the Yutai government was mainly derived from budgetary revenue and government managed fund. In 2023, budgetary revenue increased to RMB1.5 billion from RMB1.3 billion in 2021. The government managed fund increased 34.0% to RMB3.0 billion in 2023, mainly due to the increase of revenue from the transfer of state-owned land use rights. The outstanding amount of the Yutai government's debt continued to grow between 2021 and 2023, mainly due to the rise in special debts. The Yutai government's outstanding debt was RMB8.3 billion, including RMB0.9 billion of general obligations and RMB7.4 billion of special debts at end-2023. Its government debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 139.3% at end-2023 from 111.1% at end-2021.

YCKAD's Financial and Liquidity Position: YCKAD's total assets rose to RMB4.2 billion at end-September 2024 from RMB2.5 billion at end-2022 due to business expansions. The company's total debt increased to RMB565.2 million at end-September 2024 from RMB281.4 million at end-2022, with a high proportion of short-term debt (66.1% at end-September 2024). The company's financial leverage, as measured by total liabilities/total asset, decreased from 46.9% to 45.6% over the same period due to ongoing capital injections.

In addition, YCKAD's asset liquidity was moderately weak. The company's project development activities accumulated sizeable inventories and receivables, accounting for 30.8% of total asset at end-September 2024. These assets usually take a long time to monetize. Moreover, YCKAD's short-term debt servicing pressure was moderately high. The company had a cash balance of RMB218.6 million at end-September 2024, compared to its short-term debts of RMB373.6 million. 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-September 2024, the company had unused credit facilities of RMB235.3 million.

Rating Sensitivities

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

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

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