

Feicheng Huayu Industry Group Co., Ltd.

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer Credit Rating of Feicheng Huayu Industry Group Co., Ltd. (“FHIG” or “the company”); Issuer Rating Outlook is Stable

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Feicheng City, Tai’an City (“Feicheng government”) would provide very strong support to FHIG if needed, in light of its full ownership of FHIG, FHIG’s strategic importance as an important local investment and development company (“LIDC”) for state-owned assets operation in Feicheng City (“Feicheng”), and the linkage between the Feicheng government and FHIG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support, etc. In addition, the Feicheng government may face significant negative impact on its reputation and financing activities if FHIG encounters any operational and financial difficulties.

Feicheng is a county-level city under the administration of Tai’an City, Shandong Province. Its GDP grew steadily by 6.4% to RMB96.6 billion in 2024, while its budgetary revenue increased by 4.7% to RMB5.3 billion during the same period.

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

Rating Rationale

Government’s Ownership and Supervision: The Feicheng government holds the full ownership of FHIG via the State-owned Assets Operation Centre of Feicheng (“Feicheng SAOC”) and Feicheng City Urban Assets Holding Group Co., Ltd. (“FCUA”), and is the actual controller of the company. The Feicheng government has the final decision-making authority and strong supervision over the company, including appointment and supervision of the senior management, strategic alignment and decision on its major investment and financing plan decisions. In addition, the Feicheng government has assessment mechanism over the company and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance to Feicheng and Strategic Alignment: FHIG is an important LIDC that is responsible for state-owned assets operation in Feicheng. FHIG mainly undertakes Feicheng’s water operation, including water supply and sewage treatment. The company also engages in engineering construction, production and sales of glass products, logistics and transportation, property management and financial leasing within the region. FHIG plays an important role in promoting economic and social development for the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: The Feicheng government provides ongoing support to FHIG. In 2023 and 2024, the company received several arrays of equity injections from the Feicheng government, which enlarged the company’s total asset scale. Between 2022 and 2024, FHIG received financial subsidies with the total amount of RMB23.2 million from the

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	13 October 2025

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2025)

Feicheng government. We expect the support from the Feicheng government to remain intact given FHIG's strategic importance in Feicheng.

FHIG's Financial and Liquidity Position: FHIG's total assets increased significantly to RMB7.2 billion at end-June 2025 from RMB4.8 billion at end-2023, as the company continuously received capital injections from the Feicheng government. Similarly, the total debt of the company increased to RMB2.5 billion at end-June 2025, more than doubled compared with RMB1.1 billion at end-2023. The company's financial leverage, as measured by debt to capitalization ratio, increased to 39.8% at end-June 2025 from 27.1% at end-2023.

FHIG's liquidity was weak. At end-June 2025, FHIG had unrestricted cash balance of RMB271 million and unused credit facilities of RMB18 million, compared with its debt to be due within one year of RMB1,076 million. Having said that, most of the loans are bank borrowings, which are expected to be rolled over upon maturity. Moreover, FHIG has access to various financing channels, including bank loans and bond issuance to support its debt repayment and business operations.

Rating Sensitivities

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

We would consider upgrading FHIG's rating if there is an upgrade in our internal credit assessment on the Feicheng government.

Operating Environment

Economic Condition of Feicheng

Feicheng is a county-level city under the jurisdiction of Tai'an City, Shandong Province. Feicheng's GDP growth reached 6.4% in 2024, slightly below the 6.7% growth in 2023. Its GDP reached RMB96.6 billion in 2024, which was ranked 1st out of all cities, districts and counties of Tai'an City in 2024. The local economy remains driven primarily by the secondary and tertiary sectors, which contributed 54.7% and 38.0% to the GDP, respectively, in 2024.

Feicheng's Economic Condition			
(RMB billion)	2022	2023	2024
GDP	82.7	87.3	96.6
-Primary industry (%)	8.0	7.9	7.3
-Secondary industry (%)	51.5	52.0	54.7
-Tertiary industry (%)	40.5	40.1	38.0
GDP growth rate (%)	5.3	6.7	6.4
Fixed asset investment growth rate (%)	21.9	8.6	8.5
Population (million)	0.9	0.9	0.9

Source: Financial Bureau of Feicheng, Statistical Bureau of Feicheng and Lianhe Global's calculations

Fiscal Condition of Feicheng

The Feicheng government's fiscal revenue primarily comes from budgetary revenue and transfer payment. Feicheng's budgetary revenue increased to RMB5.3 billion in 2024 from RMB5.1 billion in 2023, with the contribution of tax revenue dropped to 84.6% from 88.0% over the same period. The Feicheng government recorded a budget deficit of 45.8% in 2024.

Feicheng's government fund income was further reduced by 26.2% year-on-year to RMB0.9 billion in 2024 amid property market downturns.

The Feicheng's government debt increased to RMB10.2 billion at end-2024 from RMB8.4 billion at end-2023, which was mainly due to the increase in special purpose debts to support its public projects. Its government debt ratio, as measured by the total debt over aggregate revenue, was elevated to 146.8% from 119.4% over the same period.

Feicheng's Fiscal Condition				
(RMB billion)	2022	2023	2024	
Budgetary revenue	4.7	5.1	5.3	
Budgetary revenue growth rate (%)	4.9	9.0	4.7	
Tax revenue	3.8	4.5	4.5	
Tax revenue (% of budgetary revenue)	81.8	88.0	84.6	
Government fund income	1.6	1.2	0.9	
Transfer payment	2.3	2.8	2.4	
Aggregate revenue	8.5	9.1	8.7	
Budgetary expenditure	6.9	7.1	7.8	
Budget balance ¹ (%)	-47.6	-39.3	-45.8	
Government debt ratio (%)	95.7	119.4	146.8	

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Financial Bureau of Feicheng, Statistical Bureau of Feicheng and Lianhe Global's calculations

Company Profile

FHIG was established in June 2021 with an initial registered capital of RMB2.0 billion. In June 2023, the controlling shareholder of the company was changed to FCUA. At end-2024, FCUA was the sole shareholder of the company and the Feicheng government is the actual controller of the company. At end-2024, FHIG's registered capital and paid-in capital were RMB2.0 billion and RMB0.9 billion, respectively. The company recognized a revenue of RMB314 million in the first half of 2025 with a gross margin of 21.2%.

Key Financial Data				
(RMB million)	2022	2023	2024	2025.6
Total Assets	3,044	4,758	6,183	7,209
Equity	1,090	2,837	3,771	3,794
Debt	1,249	1,057	1,401	2,513
Debt / (Debt + Equity) (%)	53.4	27.1	27.1	39.8
Unrestricted cash/ST Debts (x)	1.4	0.8	0.3	0.3
Debt/EBITDA (x)	13.7	10.0	10.3	-
Revenue	286	434	570	314
Operation Profit	37	35	31	11
Gross Margin (%)	20.9	23.7	23.8	21.2
Cash from sales or services/ Revenue (%)	77.5	73.6	110.6	143.4

Source: FHIG and Lianhe Global's calculations

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