

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Liangshan State-Owned Investment & Development Co., Ltd.

HONG KONG, 07 November 2018 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Liangshan State-Owned Investment & Development Co., Ltd. (“LSID”). The Outlook is Stable.

The Issuer Rating reflects a high possibility that Sichuan’s Liangshan Yi Autonomous Prefecture (“Liangshan”) would provide strong support to LSID if needed, in light of the Liangshan government’s majority ownership in LSID, the high strategic importance of LSID to Liangshan and the strong linkage between the Liangshan government and LSID, including management supervision and strategic alignment. In addition, the Liangshan government may face significant adverse impact on its reputation, and business and financing activities should LSID encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that LSID’s strategic importance would remain intact while the Liangshan government will continue to ensure LSID’s stable operation. The Liangshan government has provided ongoing strong support to LSID, including asset and capital injections, financial subsidies, preferential tax policies, etc.

Key Rating Rationales

A Majority Stake by Liangshan: Liangshan has 57.1% ownership of LSID via the State-owned Assets Supervision and Administration Commission of Liangshan (“SASAC of Liangshan”) which is appointed by the prefectural government to supervise state-owned entities. The remaining shareholders are the SASACs or Finance Bureau of subordinate counties. LSID increased its registered capital to CNY5.4 billion at end-June 2018 from the initial capital of CNY386 million (when it was established in 2008) after several capital injections.

High Strategic Importance: LSID is Liangshan’s largest and most important investment and financing platform. The Liangshan government is committed to further developing LSID with the sole responsibility as a state-owned investing and financing platform by consolidating stated-owned enterprises and assets.

Ongoing consolidations of industrial and capital resources through asset/capital injections and project acquisitions have expanded LSID’s asset size (by about 74% in three years to CNY59.6 billion as of end-2017) and business scope. Its asset scale is much larger than the

second largest state-owned investment and financing vehicle Liangshan Modern Agricultural Investment and Development Co., Ltd. with total assets of CNY82.8 million at end-2017.

LSID has undertaken various major projects including mining, hydropower, and tourism resources to support the economic development in Liangshan. It is also responsible for financing and management of public welfare projects such as road infrastructure, kindergarten, medical and health, poverty alleviation, and shantytown renovations. LSID has a monopoly advantage in mineral productions and road transportation in Liangshan and has been responsible for most of the government procurement.

Government Supervision and Strategic Alignment: SASAC of Liangshan has strong management supervision over LSID (including approvals of board members and senior managers and major operating and financing plans) mainly through shareholder meetings and board meetings. LSID's strategic planning and development have been aligned with the prefectural government's economic and social policies in areas such as poverty alleviation, education and infrastructure.

Ongoing Government Support: LSID has received capital and asset injections from the Liangshan government directly or indirectly from state-owned entities. The injections include, but are not limited to, equity capital, land or other fixed assets, and equity transfers. LSID has also persistently received financial subsidies from the government mainly for supporting the public welfare services and poverty alleviation. Its five subsidiaries enjoy a preferential income tax rate of 15% (compared with the normal 25% rate) as they have been classified as the enterprises in the western region carrying out the government's western development strategy.

Liangshan's Creditworthiness: Liangshan has constantly obtained strong support from the central and provincial governments mainly in the form of transfer payments. We expect the transfer payments to continue and likely be strengthened as China aims to eradicate extreme poverty by 2020, while the central government has designated 11 impoverished counties in Liangshan.

Liangshan, located in the southwest of Sichuan, is the major living area of the Yi ethnic group and one of the economically viable autonomous regions in China (ranked second among 30 autonomous regions by GDP of 2016). It received the transfer payments in excess of CNY30 billion per budgetary year in 2015-2017, more than offsetting its fiscal deficit and about three times its annual budgetary revenue. This helps Liangshan maintain a low debt ratio (i.e. total government debt divided by aggregate revenue) of barely 35% compared with 62.8% of Chengdu and 79.4% of Sichuan at end-2017.

Weak Standalone Profile: LSID's standalone credit profile is weak in view of its large debt-funded capital expenditure, resulting in continuous negative cash flow from its investment, high leverage and modest liquidity. LSID's financial leverage (total liabilities to assets) was 64.3% at end-2017. CNY9.7 billion of the total outstanding debt (CNY18.7 billion) will be due by 2019, compared with LSID's unrestricted cash of CNY8.9 billion, unused corporate bond quota (approved by the regulator) of CNY 0.8 billion and available credit lines of CNY1.8 billion at end-2017. We expect the government support through asset transfers to remain the major

driver for LSID's asset growth, while the management aims to maintain stable financial leverage by containing its debt financing.

Rating Sensitivities

We would consider downgrading LSID's rating if (1) there is perceived weakening in support from Liangshan, particularly due to its reduced strategic importance if it is no longer the largest and most important investment and financing platform in Liangshan, or (2) the stated-owned enterprises and assets consolidation according to the plan announced by Liangshan Committee of the Communist Party of China and the Liangshan prefectural government in June 2018 is not successfully implemented or (3) there is a downgrade in our internal credit assessment on Liangshan.

We could consider upgrading LSID's rating if there is an upgrade in our internal credit assessment on Liangshan.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, 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 LSID's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, 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.

Contact Information

Primary Analyst
Joyce Huang
Senior Director
(852) 3462 9578
joyce.huang@lhratingsglobal.com

Secondary Analyst
Zhao Lin
Associate
(852) 3462 9582
lin.zhao@lhratingsglobal.com

Committee Chairperson
Alex Kung
Senior Director

(852) 3462 9577
alex.kung@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2018.