鵬元國際 PENGYUAN

Mudanjiang City Investment Group Company Limited Credit Report

Ratings

Issuer Rating

LT Issuer Credit Rating	BB
Outlook	Stable

Contents

Contacts

Primary Analyst

Name Vincent Ha, CFA
Title Senior Director
Direct +852 3615 8307
Email vincent.ha@pyrating.com

Secondary Analyst

Name Brian Lam
Title Director
Direct +852 3615 8339
Email brian.lam@pyrating.com

Overview

- Pengyuan International has assigned Mudanjiang City Investment Group Company Limited (MDJCIG) a global scale long-term issuer credit rating (LTICR) of 'BB'. The outlook is stable.
- MDJCIG's issuer credit rating is based on a standalone credit profile of 'b-' and our assessment that its parent, Mudanjiang State-owned Assets Investment Holdings Company Limited (MDJSAI), has an almost certain willingness to provide extraordinary support in the event of financial distress. MDJSAI is wholly-owned by the Mudanjiang State-owned Assets Supervision and Administration Office (MDJSASAO) and its credit profile is linked to that of the Mudanjiang government. MDJCIG's rating is based on the perspective of parent support, and is underpinned by its parent MDJSAI's almost certain willingness to support it and its leading position in Mudanjiang's urban construction.

Rating Outlook

- The stable outlook for MDJCIG reflects our expectation that the credit profile of the Mudanjiang municipal government and MDJSAI will remain stable, and MDJCIG is able to maintain its strategic role in the development of Mudanjiang going forward.
- We would consider a rating downgrade if 1) MDJCIG's ties with its parent MDJSAI loosen from the current level; 2) the fiscal strengths of the Mudanjiang government weaken substantially or its debt burden exacerbates tremendously; and/or 3) MDJCIG's business scopes develop into more commercial and market-driven sectors, such as commercial property development, as opposed to social welfare-oriented businesses.
- We would consider a rating upgrade if 1) the Mudanjiang government's economic and fiscal revenue scale improves on a sustained basis; 2) MDJSAI's importance to the Mudanjiang government increases significantly; and/or 3) there is substantial improvement in MDJCIG's leverage and financial profile.

Financial Summary

Table 1: Financial Ratios

	2020A	2021A	2022F	2023F	2024F
Debt/EBITDA	11.8	6.6	10.5	10.1	9.6
EBITDA Interest Coverage	1.6	3.2	1.9	1.9	1.9
Gross Debt/Capitalisation	38.1%	34.6%	33.8%	33.0%	32.3%
FFO/Debt	8.9%	15.2%	9.2%	9.5%	10.0%
OCF/Debt	6.3%	5.8%	4.6%	3.3%	4.8%
FCF/Debt	11.4%	10.0%	9.1%	7.9%	9.6%
ROIC	3.0%	5.2%	3.0%	2.9%	2.8%

Sources: Company, Pengyuan International's estimates

Key Rating Drivers

Credit Strengths

- **Executor of Mudanjiang government's blueprint for municipal construction and development.** MDJCIG engages in Mudanjiang's economic development by being the city's most important platform for urban construction, including affordable housing and infrastructure, land development and municipal asset operations. The Company has over 75% market share in Mudanjiang's affordable housing development projects. As such, a failure in MDJCIG's operation will have a significant impact on the city's urban development progress and hurt its economic growth. We assess that in the event of financial distress, the Mudanjiang government, through MDJSAI, is willing to take necessary measures to support MDJCIG and ensure that the economic development of the city is not affected.

- **Long-standing track record of government support.** MDJCIG received government subsidies of various types, amounted to RMB158 million, RMB532 million and RMB961 million, respectively, in 2019, 2020 and 2021 and accounted for about 80-90% of the Company's net profit. In addition, MDJCIG also received capital injections, land and asset allocations, and other non-operational revenue from the Mudanjiang government to support the Company's operation and development. As at the end of 2021, MDJCIG has 69 land use rights with a total area of 1.8 million square metres. The Company was also allocated public assets such as roads, bridges and parks, and was transferred 99 storefronts of the underground commercial streets for rental income. We believe that the Mudanjiang government will continue to support MDJCIG, through MDJSAI, to facilitate the city's land development.

- **Strong ties with the government via the parent.** MDJCIG is Mudanjiang's second largest local government financing vehicle (LGFV) in terms of revenue and total assets. It is 83.6% owned by its parent MDJSAI, which is wholly-owned by MDJSASAO. Both of MDJSAI and MDJCIG's boards of directors and senior management team are appointed by the Mudanjiang Party Committee and their scope of business is approved by MDJSASAO. All of these strengthen the supervision and collaboration among the Mudanjiang government, MDJSAI and MDJCIG.

- **Modest Mudanjiang's creditworthiness with higher-level government support.** As a prefecture-level city located in the southeast part of Heilongjiang province, Mudanjiang is within the 'golden triangle' of the Chinese, Russian and Korean peninsula and an important city in the northeastern China. While the city's self-sufficiency in its budgetary revenue has been relatively low, higher-level governments have been giving consistent and strong fiscal support to Mudanjiang and this significantly augments the city's revenue scope. To elaborate, support from higher-level governments has accounted for over 70% in Mudanjiang's budgetary revenue for the past few years. As the Chinese central government has initiated measures to enhance the fiscal transfer payments to local governments, the revenue of local governments like Mudanjiang's will be further boosted.

Credit Weaknesses

- **High leverage, low profitability and weak cash flow.** We estimate that MDJCIG's net debt to adjusted EBITDA ratio would stay above 9x in the next few years. The Company's gross profit margin is thin as most of its projects are awarded by the Mudanjiang government on a not-for-profit basis. On completion of project construction, the city government will buy back the assets for a price that generally includes an 8-15% mark-up over the total development cost. Besides, the long period of receivables collection also leads to weak cash flows from operation.

- **Tight Liquidity.** We expect MDJCIG's liquidity to be tight with its 12-month forward cash flow liquidity ratio of 0.7x, on a standalone basis. We believe the Company's liquid assets on hand and expected funds from operations are insufficient to fulfil all cash outflow requirements if all short-term debt payments have to be repaid without renewal.

MDJCIG's current assets are mostly land that is classified as inventories, and receivables to government-related entities, both of which are not very liquid. The Company will require significant financing to cover its debt payments and maintain its business operations. However, we expect financial pressure on its interest payments is low when the government and parent support is sufficient.

Table 2: Key Credit Metrics

(RMB mn)	2020A	2021A	2022F	2023F	2024F
Financials and Profitability					
Revenue	1,123.4	1,601.7	1,226.6	1,266.0	1,306.6
EBITDA*	667.3	1,101.2	668.4	673.2	678.6
EBITDA Margin*	59.4%	68.8%	54.5%	53.2%	51.9%
Return on assets (ROA)	2.4%	4.2%	2.4%	2.4%	2.4%
Return on invested capital (ROIC)	3.0%	5.2%	3.0%	2.9%	2.8%
Cash Flow Measures					
Funds from operations (FFO)	698.1	1,108.7	641.2	646.6	652.3
Operating cash flows (OCF)	493.3	423.3	323.0	226.2	311.5
Free cash flow (FCF)	897.9	728.6	633.6	539.2	627.0
Discretionary cash flow (DCF)	897.9	728.6	633.6	539.2	627.0
Balance Sheet Measures					
Cash and liquid investments	212.0	112.9	464.5	719.4	1,059.9
Excess cash	72.3	68.9	430.7	684.6	1,023.9
Total debt	7,935.1	7,375.8	7,425.8	7,475.8	7,525.8
Adjusted debt	7,862.8	7,306.9	6,995.1	6,791.2	6,501.9
Total capitalisation	20,832.8	21,314.9	21,969.1	22,627.0	23,288.2
Leverage Measures					
Debt/EBITDA	11.8	6.6	10.5	10.1	9.6
EBITDA/Interest expense	1.6	3.2	1.9	1.9	1.9
Gross debt/Capitalisation	38.1%	34.6%	33.8%	33.0%	32.3%
FFO/Debt	8.9%	15.2%	9.2%	9.5%	10.0%
OCF/Debt	6.3%	5.8%	4.6%	3.3%	4.8%
FCF/Debt	11.4%	10.0%	9.1%	7.9%	9.6%
DCF/Debt	11.4%	10.0%	9.1%	7.9%	9.6%
Debt/Equity	61.0%	52.4%	48.1%	44.8%	41.2%
FFO/Cash interest expense	1.7	3.3	1.8	1.8	1.9

* EBITDA and EBITDA margin include government operational subsidies
Sources: Company, Pengyuan International's estimates

Parent and Government Support

Almost certain parent incentive to support its core subsidiary

We believe that MDJSAI has almost certain willingness to support MDJCIG in the event of financial distress, given the Company's strategic importance to its parent. Hence, we assign an issuer credit rating for MDJCIG in line with our issuer credit rating for MDJSAI. We consider MDJSAI to be a government-related entity (GRE) controlled and directly supported by the Mudanjiang government. While we do not consider MDJCIG as a directly state-controlled SOE, we regard it as the most strategically important subsidiary of MDJSAI and believe that the Mudanjiang government will support the Company through MDJSAI and other means.

MDJSAI, wholly-owned by MDJSASAO, owns 83.6% of MDJCIG as at the end of 2021. In 2021, MDJCIG accounted for 55% of MDJSAI's total assets and 45% of total revenue after the sale of the latter's Hengfeng Paper business. More importantly, MDJCIG accounted for more than 100% of MDJSAI's profit in 2020-21 and we expect such a crucial earnings contribution to continue, thus justifying our view of almost certain parent support.

Strong business connection with Mudanjiang government

MDJCIG's operations and prospects are significantly affected by the Mudanjiang government's budgets and policies, in particular those relate to urban and public infrastructure construction as well as land development, which represent almost all of the Company's business. Likewise, most of MDJCIG's revenue directly or indirectly comes from the Mudanjiang government and its related entities. To elaborate, almost all of the accounts receivables of the Company were from the local government/local finance bureau or other government related parties. Being the second largest LGFV ultimately owned by MDJSASAO (with its parent being the largest) with a focus on urban construction and land management in Mudanjiang, MDJCIG is designated to carry out the city government's directions, plans and policies for the municipal development. In fact, The Company has over 75% market share in Mudanjiang's affordable housing development projects. As such, the business connection between MDJCIG and the Mudanjiang government is strong, in our view.

Senior management appointment and decision involvement signify strong ties with Mudanjiang government

As MDJCIG's indirect controlling shareholder, MDJSASAO, together with other entities in the Mudanjiang government, are closely involved in key investment and operation decisions of the Company. For instance, MDJCIG's board of directors and senior management team are appointed by the Mudanjiang Party Committee and the scope of business is approved by MDJSASAO. The Company's major investment projects, financing projects or guarantees, development strategies and financing risk control measures need to be approved by the Mudanjiang government and MDJSASAO. The city government and MDJSASAO also supervise MDJCIG's corporate affairs such as reorganisation and restructuring, major asset changes, and registered capital changes. All in all, we see a high degree of direct and indirect government control over the Company's operations, which are highly interwoven with key government functions. Since MDJCIG plays a crucial role in Mudanjiang's urban construction, the Company's ties with the government should be viewed on a sustainable basis.

Continuous asset injections and financial subsidies from the Mudanjiang government

We believe that MDJSAI and MDJSASAO will continue to support MDJCIG's operation by various means. For instance, the Company received government subsidies of various types amounted to RMB158 million, RMB532 million and RMB961 million, respectively, in 2019, 2020 and 2021 and accounted for about 80-90% of its net profit. Besides, MDJCIG also received capital injections, land and asset allocations, and other non-operational revenue from the Mudanjiang government to support the Company's operation and development. As at the end of 2021, MDJCIG has 69 land use rights with a total area of 1.8 million square metres. The Company was also allocated public assets such as roads, bridges and parks, and was transferred 99 storefronts of the underground commercial streets for rental income.

Credit Profiles of Heilongjiang Provincial Government and Mudanjiang Municipal Government

Pengyuan International assigned the global scale LTICR of 'A' to the Heilongjiang provincial government in August 2021 with a stable outlook.

Heilongjiang: Reasonable liquidity conditions but sluggish economic progress and exacerbating debt pressure

Heilongjiang is the northernmost and easternmost province of China (AA, Stable). The province is bordered by the Jilin province to the south and Inner Mongolia to the west, and shares a border with Russia to the north and east. Among Chinese provincial-level administrative divisions, Heilongjiang is the sixth-largest by total area of 473,000 square kilometres. It has a population of 31.3 million in 2021. Heilongjiang has significant agricultural production and natural resources such as timber, oil and coal.

The province's budgetary revenue strength is well bolstered by the central government's fiscal support and measures. The increasing refunds and transfers from the central government have become the pivotal part in Heilongjiang's budgetary revenue, comprising of around 70% of its revenue in 2021. Hence, the province has a sizeable budgetary revenue scale estimated at RMB476.9 billion in 2021. In our view, the central government should continue to support Heilongjiang's financial profile over the next few years, as the province is renowned with its crucial resources and cereal supply base in the country.

The liquidity conditions of the Heilongjiang provincial government remain reasonable. With the substantial fiscal grants from the central government, the province's fiscal deposit has incrementally grown to RMB101.5 billion at the end of 2021, which is a considerable amount versus its debt and interest obligations, implying that the government has accumulated sufficient liquid resources to tackle any potential challenges.

In terms of economic growth, Heilongjiang has been a relatively mediocre performer in recent years, hindered by the population contraction, resources exhaustion and economic structure defects. With several years of sluggish economic growth, the province registered a relatively low GDP per capita of RMB47,160 at the end of 2021. Although the government has strived to revive the local economy through a variety of measures, the revitalisation process has appeared to be ineffective so far.

Debt pressure is weighing on the province's slow-growing economy. The fiscal stimulus policy in 2020 to cushion the impact of the coronavirus pandemic has exacerbated Heilongjiang's budgetary imbalance, which in turn piled up debts. Comparing to the province's GDP scope, its debt burden is relatively heavy with an estimated broad debt of RMB755 billion (including direct debt and hidden debt) by the end of 2021. The province's debt to GDP ratio was 51% in 2021 and is expected to rise further over the next few years.

Mudanjiang: Weak economic base with modest fiscal deficit

Mudanjiang is a prefecture-level city under the jurisdiction of Heilongjiang province and is also an important central city and scenic tourism city in the southeast of Heilongjiang province approved by the State Council. The city is in the centre of the northeast Asian economic circle, adjacent to Russia. Mudanjiang is an important strategic pivotal of the "China Mongolia Russia economic corridor" and the Longjiang Silk Road belt, and a bridgehead and hub for China's opening up to Russia along the border. The city manages over four municipal districts, five county-level cities and one county, with a total area of 40,600 square kilometres. According to the seventh census, the residential population of Mudanjiang City was 22.9 million in 2020.

Mudanjiang, as many of its peers in Heilongjiang province, has been afflicted by the obsolete economic structure, outflowing population, exhausting resources and lack of incremental investment and businesses over the past few years. The downward pressure on its economy is considerable. The city's economy grew 0.4% in 2020 during the pandemic and expanded 6.1% in 2021 as a result of the nation-wide economic recovery, slower than that of most of its peers. The city's GDP per capita amounted to RMB38,244 by the end of 2021, indicating a relatively weak economic foundation. The prospect of Mudanjiang's economic growth remains vague, the ongoing political event in Russia has added to the uncertainties since the trade with Russia has accounted for a good part in the city's economy. All in all, we expect Mudanjiang's economic growth to be around 4% in 2022 and the next few years.

Mudanjiang government's general public revenue was trimmed by the nation-wide tax cuts in 2019 with a contraction of 1.2%, while the general public expenditure growth remained relatively intense. Subsequently, the city's deficit increased substantially in 2019. In 2020, with the enhancement of refunds and transfers from higher-level governments, the general public revenue of the government stabilised, helping the deficit to decrease to a degree. While the general public revenue of Mudanjiang declined slightly in 2021 as a result of the weakened fiscal support, the general public expenditure was effectively curtailed, causing the deficit of the city to narrow further in 2021. We believe the government is maintaining a mild deficit in 2022 in the hope of a substantial boost of fiscal transfer payment that has been a bulk of Mudanjiang's budgetary revenue for many years. In general, the city's budgetary balance has been in a relatively healthy state and is likely to continue in the next few years.

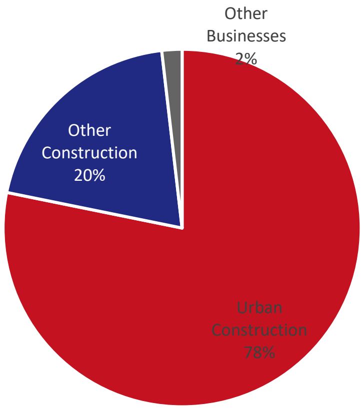
Mudanjiang's debt-to-revenue ratio was 191% as at the end of 2021, which is relatively high for a local government in China, as the government has been ramping up its debts in a bid to fuel its infrastructure investment and other fiscal expenditure. The debt-to-GDP ratio is calculated to be 62% in 2021, pointing to a high leverage comparing to its peers. While the Mudanjiang government's budgetary revenue is somehow sustained by the massive fiscal support offered by higher-level governments, the economic size of the city remains small, and the debt burden on its economy appears stretched. Nevertheless, we expect Mudanjiang's debt growth to slow considerably in 2022 as the strengthening fiscal help from higher-level governments should bolster the city's fiscal expansion this year, without the necessity to tap into excessive debts.

The deposit to interest payment ratio of Mudanjiang is assumed to be 144% in 2022 and 139% in 2023, reflecting barely enough fiscal deposits to cover interest obligations. As at the beginning of 2020, the government recorded a fiscal deposit of RMB2 billion which is presumed to remain growing moderately considering robust fiscal support from higher-level governments. But the fiscal deposit looks relatively thin comparing to its sizable debt scale. Nevertheless, the debt ceiling of Mudanjiang has been constantly rising, giving incremental leeway for the city to borrow. In addition, the fiscal gaps between the city's revenue and expenditure are expected to stabilise, which means that the liquidity needs should remain relatively moderate in the next few years. In general, we believe Mudanjiang's liquidity coverage capacity is sufficient.

Business Profile

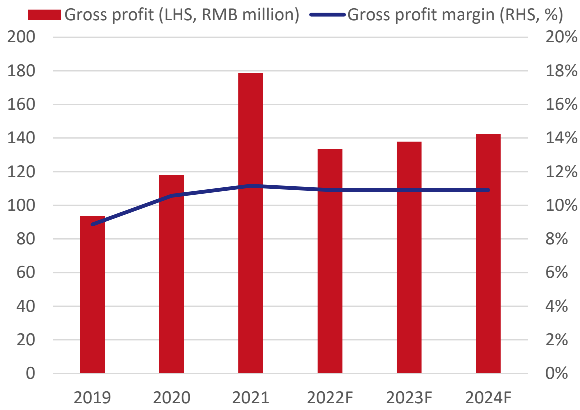
MDJCIG engages in Mudanjiang's economic development by being the city's most important platform for urban construction, including affordable housing and infrastructure, land development and municipal asset operations. The Company has over 75% market share in Mudanjiang's affordable housing development projects. At the moment, MDJCIG primarily focuses on four business segments, namely (i) urban construction, (ii) other construction, (iii) property development and (iv) other businesses.

Exhibit 3: MDJCIG's revenue mix (2021)



Source: Company

Exhibit 4: MDJCIG's gross profit trend



Sources: Company, Pengyuan International's estimates

(i) **Urban Construction:** MDJCIG's urban construction business is divided into two sub-segments, namely urban infrastructure construction and affordable housing development. As the primary urban construction platform authorised by the Mudanjiang government, the Company undertakes various urban infrastructure construction projects in the city, such as roads, bridges, buildings, parks, intelligent bus systems, wastewater pumping storage power station and electrification projects. Regarding MDJCIG's affordable housing development projects, the Company is typically assigned or awarded these projects by the Mudanjiang government under a repurchase agreement, and is responsible for obtaining financing and approvals, organising relocation and resettlement of shanty areas, and managing overall project and finance tasks. The completed affordable housing projects are mainly in the forms of resettlement housing and public rental housing, which are sold and transferred to the city government or its designated state-owned or controlled enterprises. In January 2022, the Mudanjiang government entered into a repurchase programme with MDJCIG with a repurchasing amount of about RMB6.1 billion for repurchasing the completed construction projects of shanty towns, implying a predictable future income stream.

(ii) **Other Construction:** MDJCIG offers construction and engineering services for external clients and partially provides support to the infrastructure projects by which the Company undertakes. Major projects of MDJCIG's construction business include construction of the Jiangnan Campus of Lixin Primary School of No. 4 Middle School (四中立新小学江南校区工程), the Phase II renovation project at the shanty areas of Beiyue City (北悦城棚户区改造建设专案(二期)工程), the revocation project at Human Resources Industrial Park (人力产业园装修项目) and the style and environment improvement project at Feilongtan (飞龙潭风貌环境提升专案), among others.

(iii) **Property Development/Land Management:** As at the end of 2021, MDJCIG had completed three property development projects with a total gross floor area (GFA) of 320,000 square metres and a total investment amount of RMB1.4 billion and had no ongoing property development projects. Going forward, the land management business will be one of the Company's future core business and basic functions. Mudanjiang Land Reserve Centre City Investment Branch, a subsidiary that is mandated by Mudanjiang Land Reserve Centre to carry out land management work, is responsible for city-wide slum area land acquisition, land reserve, early phase development and land supply work in the area of shantytowns. Since the end of 2018, MDJCIG has operated on an 'as needed' model, where it collects land based on the needs for slum renovation and Mudanjiang development. In relation to this business segment, the Company has acquired North Taiping Road, an area of about 690,000 square metres, and has plans for revitalisation of the Northeast Old Industrial Base. MDJCIG also has other land reserves which has yet to be developed.

(iv) **Other Businesses:** MDJCIG's Other businesses include its housing-related business and property leasing business. For the housing-related businesses, the Company participates in the first- and the second-hand housing sales, distribution and exhibition business. MDGCIG also provides operation services to those municipal assets that it has constructed. Besides, the Company decided to cease the machine tool and solar cell-related business in December 2018 to streamline its businesses.

Financial Profile

Prudent financial policy and low profitability

MDJCIG's financial policy is closely monitored by its parent MDJSAI, and MDJSASAO. For instance, the Company's major investment projects, financing projects or guarantees, and the control of financing risks need to be approved by the Mudanjiang government and MDJSASAO. We believe that MDJSASAO has been and will continue to strictly follow the policies initiated by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), and closely monitor MDJSAI's and MDJCIG's financial leverage and operation.

In terms of financing, MDJCIG always ensures its funding source diversity, including financial institutions and capital markets. The Company also optimises debt financing structure and maintains its debt-to-asset ratio at an unstretched level. Regarding MDJCIG's accounts receivables, these are mainly derived from infrastructure development and the Company has client credit risk and warning systems to lower cash flow and bad debt risks.

MDJCIG engages in Mudanjiang's economic development by being the city's most important platform for urban construction, including affordable housing and infrastructure, land development and municipal asset operations. The Mudanjiang government has entered into repurchase agreements with the Company for various urban infrastructure construction and affordable housing development projects, which provide 8-15% commissioned management fees in addition to repayment of the actual costs. Yet with a slow receivables turnover rate, i.e. high invested capital, we expect MDJCIG's return on invested capital (ROIC) will remain low at about 3% over the next three years.

Weak financial leverage given limited debt-servicing capability

MDJCIG's leverage profile is considered weak due to its relatively high debt level versus the Company's capability to service its debt over the course of our measurement. MDJCIG's debt-to-EBITDA ratio was at a high level of 7x in 2021, implying challenges in paying up the debt balance solely by EBITDA, while the average EBITDA interest coverage ratio of 1.8x in 2019-21 indicates that the Company's EBITDA is just slightly more than sufficient to meet its interest expense obligations. On the other hand, MDJCIG's debt level is not stretched versus its asset level, with its gross-debt-to-total-capitalisation ratio at 35% in 2021. While we believe the Company's debt level will rise when it continues to put in capital on construction projects, we do not expect immediate worsening of leverage risk.

We view MDJCIG's debt structure as neutral because the Company's short-term debt exposure is limited at less than 20% of total debt outstanding.

We assess MDJCIG's foreign exchange risk as neutral as most outstanding debts were denominated in Renminbi. In addition, while the interest rate exposure of the Company's bank loan is largely priced in variable interest rates, the annual interest rates are in a relatively narrow spectrum ranging from 4.55% to 6.30%. We therefore do not foresee significant interest rate risk.

Liquidity

We evaluate MDJCIG's liquidity as fairly weak in the near term after considering both the quick ratio and the cash flow liquidity ratio. The Company's 12-month forward-looking cash flow liquidity ratio is estimated at 0.7x (in 2022), deemed marginally inadequate to handle the cash outflow in the next 12 months.

Nevertheless, MDJCIG's liquidity should be supported by MDJSAI and the Mudanjiang government. Besides, banks and other financial institutions should be willing to offer the Company concrete loan facilities than other normal commercial companies. These supports will jointly beef up the actual liquidity state of MDJCIG. To elaborate, the Company had total credit facilities of RMB10.38 billion as at the end of 2021, of which RMB1.28 billion had not been utilised, according to the management.

We made the following key assumptions when assessing MDJCIG's liquidity:

- Estimated cash and short-term investments of RMB113 million/464 million at the beginning of 2022/23;
- Estimated funds from operations inflow of RMB641 million/647 million in 2022/23;
- Estimated working capital outflow of RMB291 million/393 million in 2022/23;

- Estimated short-term debt repayments of RMB1.1 billion/1.1 billion in 2022/23.

Company Background

With its predecessor established in 2000, MDJCIG is an important investment and financing entity and a large state-owned operation platform in the Mudanjiang city of Heilongjiang province. The Company is the main entity authorised by the Mudanjiang government that is primarily responsible for the construction and development of the majority of urban construction projects in the city. MDJCIG has over 75% market share of Mudanjiang's affordable housing development projects, covering all projects except for Jiangnan New Town.

MDJCIG primarily operates in the following four business segments: (i) urban construction, (ii) other construction, (iii) property development/land management and (iv) other businesses.

Rating Scores Summary

Business Profile	**Fairy Weak**
Industry and Operation Risk Profile	Fairly Weak
Macroenvironment Risk	Low
Financial Profile	**bb-**
Preliminary Leverage Profile	bb
Cash Flow Variations	Neutral
Debt Structure and Financial Policy	Neutral
Financial Volatility	Neutral
Investment	Neutral
Final Leverage Profile	bb
Profitability	Weak
Indicative Credit Score (ICS)	**b+**
Adjustment Factors	
Corporate Structure and Governance	Neutral
Liquidity	Fairly Weak
Supplementary Analysis	Neutral
Standalone Credit Profile (SACP)	**b-**
External Support	
Parental Support	Almost Certain
Government Support	NA
Issuer Credit Rating (ICR)	**BB**

Related Criteria

General Corporate Rating Criteria (15 March 2018)

Government-Related Entities Rating Criteria (31 August 2018)

Corporate Financial Adjustments and Ratio Definitions (7 May 2018)

Criteria Deviation

In this rating assignment, the committee adopted different weightings when assessing the leverage profile of the rated entity, which is a deviation from the weightings set by our General Corporate Rating Criteria (31 August 2018). The committee believes the leverage ratios set by our general corporate criteria are mostly cash flow leverage focused and do not properly reflect the true financial leverage risk of the local government financing vehicles in China which should be assessed from a balance-sheet leverage perspective, the initial weightings of '30%, 30%, 20%, 20%' for 'Debt/EBITDA, EBITDA Interest Coverage, Gross Debt to Capitalisation, FFO/Debt' were modified to '25%, 25%, 50%, 0%' for 'Debt/EBITDA, EBITDA Interest Coverage, Gross Debt to Capitalisation, FFO/Debt'.

DISCLAIMER

Solicited ratings – disclosed and results not affected

Pengyuan Credit Rating (Hong Kong) Company Ltd (“Pengyuan International”, “Pengyuan”, “the Company”, “we”, “us”, “our”) publishes credit ratings and reports based on the established methodologies and in compliance with the rating process. For more information on policies, procedures, and methodologies, please refer to the Company’s website www.pyrating.com. The Company reserves the right to amend, change, remove, publish any information on its website without prior notice and at its sole discretion.

All credit ratings and reports are subject to disclaimers and limitations. CREDIT RATINGS ARE NOT FINANCIAL OR INVESTMENT ADVICE AND MUST NOT BE CONSIDERED AS A RECOMMENDATION TO BUY, SELL OR HOLD ANY SECURITIES AND DO NOT ADDRESS/REFLECT MARKET VALUE OF ANY SECURITIES. USERS OF CREDIT RATINGS ARE EXPECTED TO BE TRAINED FOR INDEPENDENT ASSESSMENT OF INVESTMENT AND BUSINESS DECISIONS.

CREDIT RATINGS ADDRESS ONLY CREDIT RISK. THE COMPANY DEFINES THE CREDIT RISK AS THE RISK THAT THE RATED ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS MUST NOT BE CONSIDERED AS FACTS OF A SPECIFIC DEFAULT PROBABILITY OR AS A PREDICTIVE MEASURE OF A DEFAULT PROBABILITY. Credit ratings constitute the Company’s forward-looking opinion of the credit rating committee and include predictions about future events which by definition cannot be validated as facts.

For the purpose of the rating process, the Company obtains sufficient quality factual information from sources which are believed by the Company to be reliable and accurate. The Company does not perform an audit and undertakes no duty of due diligence or third-party verification of any information it uses during the rating process. The issuer and its advisors are ultimately responsible for the accuracy of the information provided for the rating process. The Company had access to the accounts and other relevant internal documents of the rated entity or its related party. The Company has examined the quality of information used in the rating process in accordance with established process and it is satisfied with the quality of information used.

Users of the Company’s credit ratings shall refer to the rating symbols and definitions published on the Company’s website. Credit ratings with the same rating symbol may not fully reflect all small differences in the degrees of risk, because credit ratings are relative measures of the credit risk.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF ANY INFORMATION GIVEN OR MADE BY THE COMPANY IN ANY FORM OR MANNER. In no event shall the Company, its directors, shareholders, employees, representatives be liable to any party for any damages, expenses, fees, or losses in connection with any use of the information published by the Company.

The Company reserves the right to take any rating action for any reasons the Company deems sufficient at any time and in its sole discretion. The publication and maintenance of credit ratings are subject to availability of sufficient information.

The Company may receive compensation for its credit ratings, normally from issuers, underwriters or obligors. The information about the Company’s fee schedule can be provided upon the request.

The rated entity participated in the rating process. The credit rating has been disclosed to the rated entity or to its related party and, following such disclosure, the credit rating result has not been amended before being issued.

The Company reserves the right to disseminate its credit ratings and reports through its website, the Company’s social media pages and authorised third parties. No content published by the Company may be modified, reproduced, transferred, distributed or reverse engineered in any form by any means without the prior written consent of the Company.

The Company’s credit ratings and reports are not intended for distribution to, or use by, any person in a jurisdiction where such usage would infringe the law. If in doubts, please consult the relevant regulatory body or professional advisor and ensure compliance with applicable laws and regulations.

In the event of any dispute arising out of or in relation to our credit ratings and reports, the Company shall have absolute discretion in all matters relating to resolving the dispute, including but not limited to the interpretation of disclaimers and policies.