

## **CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Qingdao West Coast New Area Ronghe Holding Group Co., Ltd., with stable outlook.**

Hong Kong, 28 September 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time A<sub>g</sub>- long-term credit rating to Qingdao West Coast New Area Ronghe Holding Group Co., Ltd. (“Ronghe Holding” or the “Company”), with stable outlook.

The A<sub>g</sub>- long-term credit rating of Ronghe Holding reflects Qingdao West Coast New Area (“QDWC New Area”) Government’s very strong capacity and very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of QDWC New Area Government’s capacity to provide support reflects the status of QDWC New Area as the ninth National New Area and the local government’s strong economic strength, good fiscal metrics, and debt profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full and direct ownership by the QDWC New Area Government; (2) strong strategic role in undertaking public policy projects in the development of the QDWC New Area; (3) good track record of receiving government payments; and (4) diversified and stable funding sources from major banks and the domestic bond market. However, the Company’s rating is constrained by (1) high exposure to commercial businesses; (2) accelerated debt growth driven by expansion; and (3) risk exposure of regional private-owned enterprises during market downturn.

### **Corporate Profile**

Founded in November 2018, Ronghe Holding is one of the two major local infrastructure investment and financing companies (“LIIFCs”) in the Qingdao West Coast New Area (“QDWC New Area”). It was directly and wholly owned by the Qingdao West Coast New Area State-owned Assets Supervision and Administration Commission (“QDWC New Area SASAC”) as of 31 March 2022. Ronghe Holding has undertaken major infrastructure construction, resettlement housing and educational projects in the QDWC New Area. It is also involved in commercial businesses including trading, real estate development, manufacturing, and financial services businesses such as guarantees, small-sum loan, pawning and leasing.

### **Rating Rationale**

#### **Credit Strengths**

**Strong strategic role in undertaking public policy projects in the development of the QDWC New Area.** Ronghe Holding is one of two pilot state-owned enterprises owned by the QDWC New Area SASAC and mandated by the government to develop the QDWC New Area. Ronghe Holding is currently the third largest LIIFC in Qingdao City and the largest LIIFC in the QDWC New Area. The success of the QDWC New Area is also important to the municipal and national strategy.

**Good track record of receiving government payments.** Ronghe Holding's infrastructure investments are mostly funded by the local government through special bond funding. The Company also received cash injections, management fees for infrastructure projects, repurchase payments and other cash payments from the government to meet some of the financial needs of its public policy projects. Over the past three years, Ronghe Holding has received government payments of RMB15.9 billion.

**Good access to funding from banks and the domestic bond market.** Ronghe Holding has multiple financing channels to support its operations and investments, including bank loans and onshore bond issuances. As of 31 December 2021, loans from financial institutions accounted for around 40% of Ronghe Holding's total debt, mainly provided by diversified domestic banks including policy banks. It also has issued different financial products in the onshore bond market such as commercial papers, MTNs, private placement notes, and asset-backed notes.

### Credit Challenges

**High exposure to commercial business activities, with large capital spending.** Ronghe Holding's exposure to commercial businesses is high with large capital spending. The Company's commercial businesses include trading, property development, manufacturing, and financial services. Despite some of these activities that are more policy-driven and related to its public policy businesses, the willingness of the government to provide support may be reduced if its commercial exposure significantly increases, as it is more difficult for the government to support Ronghe Holding's commercial activities.

**Exposure to risks regarding regional private-owned enterprises during market downturn.** Ronghe Holding's large-scale commercial activities also make it bear certain risk exposure to local private-owned enterprises, which have higher operation risks during market downturn. As of 31 December 2021, the Company reported total receivables (including account receivable, other receivable and long-term receivable) of RMB18.2 billion, largely from its commercial activities that have a relatively high collection risk.

### Rating Outlook

The stable outlook on Ronghe Holding's rating reflects our expectation that the QDWC New Area government's capacity to provide support will be stable, and that the Company will maintain its strategic role in undertaking public policy projects in the QDWC New Area over the next 12 to 18 months.

### What could upgrade the rating?

The rating could be upgraded if (1) QDWC New Area Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as consistently increases government payments, materially lowers the exposure to risky commercial activities and improves in debt management and asset quality.

### What could downgrade the rating?



The rating could be downgraded if (1) QDWC New Area Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decreased government payments, or weakened funding capabilities.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

### **Regulatory Disclosures**

CCXAP's Rating Symbols and Definitions are available on its website at:  
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