

CCXAP assigns first time long-term credit rating of BBB_g+ to Qingdao Ronghui Fortune Investment Holding Group Co., Ltd., with stable outlook.

Hong Kong, 31 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Qingdao Ronghui Fortune Investment Holding Group Co., Ltd. (“QDRH” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of QDRH reflects Shibei District Government’s strong capacity and extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shibei District Government’s capacity to provide support reflects Shibei District’s sound economic and fiscal strength, with a gross regional product (“GRP”) of over RMB100 billion.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role in the industrial and urban development in Shibei District; (2) good track record of government support such as receiving shantytown assets and equity transfer; and (3) good access to diversified funding sources. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; and (2) increasing short-term debt burden.

Corporate Profile

Established in 2019, QDRH is the one of the primary local infrastructure investment and financing companies (“LIIFCs”) that focuses on urban investment and operations, as well as industrial services in Shibei District, Qingdao City. QDRH is engaged in land consolidation and development, infrastructure construction and shantytown development in Shibei District. It also undertakes commercial activities such as property development, property leasing, trading and financial investment. As of 30 September 2022, QDRH was 90% owned by the State-owned Assets Operation and Development Center of Qingdao Shibei District (“Shibei SAODC”) and 10% owned by the Shandong Caixin Asset Operating Co., Ltd. Its ultimate controller was the Shibei SAODC.

Rating Rationale

Credit Strengths

Key role in the industrial and urban development in Shibei District. QDRH is the one of the primary LIIFCs in Shibei District, with a strong strategic position under the local government’s planning. QDRH is positioned as a main entity in Shibei District that undertakes financial investment, industrial investment as well as development and construction including infrastructure construction. It is responsible for land consolidation and secondary development such as construction of factories, office building and commercial development in three main industrial zones in Shibei District.

Good track record of receiving government support. QDRH has a solid track record of receiving government support in various forms such as capital injection, financial subsidies,

and government payment for construction projects. From 2019 to 2022Q3, Shibei District Government has transferred equity of several companies to the Company. In addition, the local government transferred the shantytown project assets in 2020 and 2021 respectively, with total amount of RMB11.8 billion, which also help strengthen the Company's capital. Given the Company's strategic importance in Shibei District, we believe that the Shibei District Government will provide QDRH with ongoing operational and financial support.

Good access to diversified funding sources. QDRH has good access to various sources of funding, including banks and bond market. It has maintained good relationship with large domestic banks including national joint-stock commercial banks and state-owned large commercial banks. QDRH also has access to onshore debt capital market and issued different financial products in the onshore bond market such as SCPs, corporate bonds, MTNs and private placement notes. In addition, QDRH has manageable exposure to non-standard channels as of 30 September 2022.

Credit Challenges

Medium exposure to commercial activities. QDRH is engaged in diversified commercial activities including trading business, property development, property leasing and financial investment. While the commercial activities generate supplemental income, they may also pose higher operating and business risks than traditional infrastructure construction business. QDRH relies on external financing to support the development of its commercial activities.

Increasing short-term debt burden. QDRH has an increasing debt level because of its continuous investment in land consolidation, shantytown project and property development. The total capitalization ratio, as measured by total debt to total capital, was 51.4% as of 30 September 2022. At the same time, the Company had high short-term debt burden with the short-term debt accounting for 34.0% of the total debt. In addition, the liquidity profile was weak with a cash to short-term debt ratio of around 0.4x as of 30 September 2022, indicating that its cash balance was insufficient to cover its short-term debt.

Rating Outlook

The stable outlook on QDRH's rating reflects our expectation that Shibei District Government's capacity to provide support will be stable; and the Company will maintain its key role in industrial and urban development in Shibei District over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Shibei District Government's capacity to support materially strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as reduced exposure to commercial activities, or improved debt management.

What could downgrade the rating?



The rating could be downgraded if (1) Shibe District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a reduction in the importance of its policy role, weakened government payments, or a deterioration in its financing ability.

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

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