

CCXAP assigns first time long-term credit rating of BBB_g+ to Shandong Hesheng Investment Co., Ltd., with stable outlook.

Hong Kong, 28 September, 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Shandong Hesheng Investment Co., Ltd. (“SHIC” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of SDPH reflects Jimo District Government’s (1) strong capacity to provide support, and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Jimo District Government’s capacity to support reflects Jimo District’s status as one of the top three largest districts by gross regional product (“GRP”) in Qingdao City for years, with growing economic and fiscal strengths.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership by the Jimo District Government; and (2) strategic important role for urban construction and economic development in Jimo District, especially in the Economic Development Zone of Jimo District (“Jimo EDZ”). However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt level because of higher investment needs; and (3) higher funding cost driven by moderating financing environment of the district.

Corporate Profile

Established in January 2020, SHIC is one of the major local state-owned entities in Jimo District, Qingdao City. It is positioned as the key entity for urban construction and assets operation in Jimo District, and is mainly responsible for projects construction and leasing in Jimo EDZ. The Company is also diversified into other businesses, including self-operated construction and property development. As of 30 June 2023, the Company was wholly owned by the State-owned Assets Operation Service Centre of Jimo District of Qingdao City, which is under the direct administration of the Jimo District Government.

Rating Rationale

Credit Strengths

Strategic important role for urban construction and economic development, especially in the Jimo EDZ. SHIC is one of the key state-owned entities in Jimo District. It plays an essential role in urban construction and operation in Jimo EDZ, and is mainly responsible for major projects construction in Jimo EDZ. The Company is expected to undertake more roles and projects in Jimo EDZ in the future according to the government planning, which could ensure the sustainability of Company’s development.

The Company has received comprehensive support from the local government, in terms of asset injections and operating subsidies. For example, from 2020 to June 2023, the local

government has continuously injected assets to SHIC, such as sea area using right, parking lots, and sewage and heating pipelines.

Credit Challenges

Medium exposure to commercial activities. SHIC's commercial activities are considered at a medium level. The Company engaged in leasing, property development, and project construction such as industrial parks and medical service center. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its project construction businesses. The Company's exposure to commercial businesses is considered to be medium.

Increasing debt level because of higher investment needs. SHIC shows rising debt burden owing to its debt-driven business expansion in the construction of projects over the past few years. As of 30 June 2023, the Company's total debt increased to RMB3.9 billion from RMB830.5 million at end-2020. As the Company's operating cash flow and projects repayments are insufficient to fully support the future capital expenditure plan, the continuous investments in these projects will rely on external financing, we expect the Company's debt burden and leverage will continue to increase in the next 12 to 18 months.

Higher funding cost driven by the moderating financing environment of the district. SHIC has maintained good relationships with large domestic banks, such as large state-owned banks and joint-stock commercial banks. However, the Company demonstrated limited outstanding credit facilities which may constrain its liquidity position over the short to medium term. It also tapped into high-cost nonstandard financing channels such as financial leasing and trust companies to meet its funding needs. The exposure to non-standard financing is moderate, which accounted for around 10%-15% of total debt as of 30 June 2023. However, the cost of non-standard financing is relatively high.

Rating Outlook

The stable outlook on SDPH's rating reflects our expectation that the Jining Municipal Government's capacity to provide support will be stable, and the Company's importance in the development of Jimo District over the next 12 to 18 months.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Jimo District 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 regional significance, deteriorated debt management, or materially increased exposure to risky commercial activities.

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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