

## Credit Opinion

22 April 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

### Analyst Contacts

Christy Liu +852-2860 7127

Credit Analyst

[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Eddie Li +852-2860 7130

Assistant Credit Analyst

[eddie\\_li@ccxap.com](mailto:eddie_li@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

*\*The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

### Client Services

Hong Kong +852-2860 7111

## Linyi City Construction Investment Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Linyi City Construction Investment Group Co., Ltd.'s long-term credit rating at A<sub>g</sub>-, with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Linyi City Construction Investment Group Co., Ltd. ("LCCI" or the "Company") reflects Linyi Municipal Government's very strong capacity and the local government's very high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Linyi Municipal Government's capacity to support reflects Linyi City's status as the largest city in Shandong Province in terms of population and area, with ongoing economic growth.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strategic policy role in the regional development of Linyi City, with regional dominance in infrastructure construction; (2) solid track record of receiving government support; and (3) good access to funding.

However, the rating is constrained by the Company's (1) high exposure to commercial activities with large capital expenditure needs; (2) increasing debt burden with short-term refinancing pressure; and (3) moderate asset liquidity.

The stable outlook on LCCI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic importance position in Linyi City over the next 12-18 months.

## Rating Drivers

- Strategic policy role in regional development of Linyi City
- High exposure to commercial activities with large capital expenditure needs
- Solid track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Good access to funding with sufficient bank facilities

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Linyi Municipal 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 lower exposure to risky commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) Linyi Municipal 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 or weakened funding ability.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	77.1	86.1	94.7	97.2
Total Equity (RMB billion)	36.3	36.0	35.9	36.6
Total Revenue (RMB billion)	7.1	7.4	10.2	5.3
Total Debt/Total Capital (%)	45.6	53.1	58.0	58.3

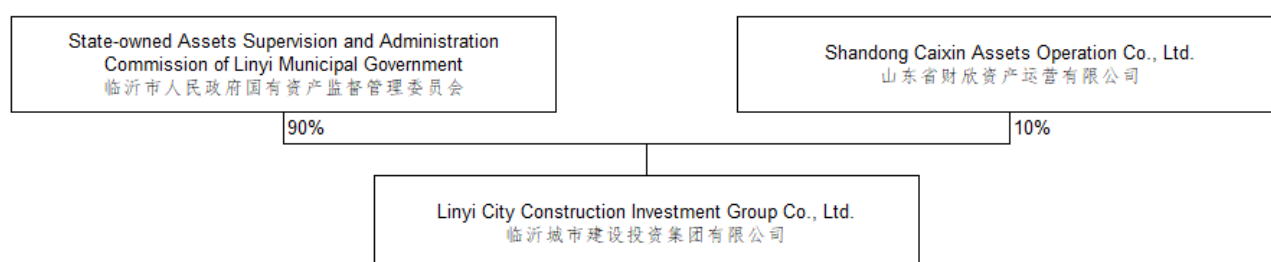
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

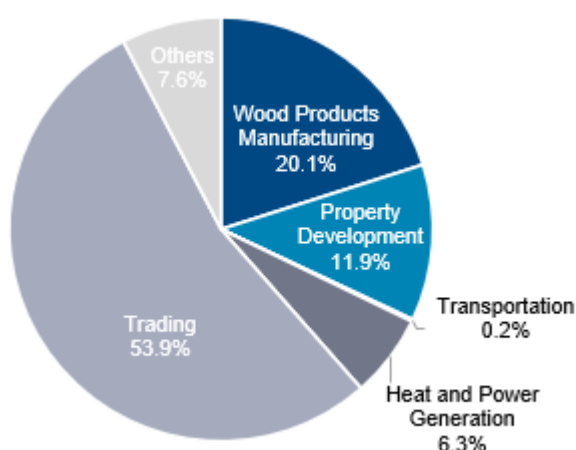
Established in May 2013, LCCI is the largest local infrastructure investment and financing company ("LIIFC") in terms of asset size in Linyi City and plays the most important role in the economic development of Linyi City. The Company is primarily responsible for local key public-policy activities, such as infrastructure construction. In addition, the Company is engaged in commercial activities such as property development, heat and power generation, wood products manufacturing, financial investment and trading businesses. As of 30 September 2024, the State-owned Assets Supervision and Administration Commission of Linyi Municipal Government ("Linyi SASAC") directly held 90% of the Company's shares. The remaining 10% of the shares were held by Shandong Caixin Assets Operation Co., Ltd ("Shandong Caixin"). The Linyi Municipal Government is the ultimate controller of LCCI.

## Exhibit 1. Shareholding chart as of 30 September 2024



Source: Company information, CCXAP research

## Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe Linyi Municipal Government has a very strong capacity to provide support given its location advantage in Shandong Province with ongoing economic growth.

Shandong Province is the third largest province in terms of gross regional product ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding, and marine technology, chemical, automotive and agri-food. Shandong Province recorded a GRP of RMB9.2 trillion in 2023. In 2024, according to the preliminary estimation, Shandong Province's GRP further increased to RMB9.9 trillion, a year-over-year ("YoY") increase of 5.7%. At the same time, it recorded a general budgetary revenue of RMB771.2 billion, representing a YoY increase of 3.3%.

Linyi City is the largest city by population and area in Shandong Province, with rich water and land resources. It is a pivotal central city in southern Shandong Province, situated at the intersection of the Eurasia Land Bridge's bridgehead, the Yangtze River Delta Economic Area, and the Bohai Economic Rim. Characterized by industries such as agriculture and food processing, manufacturing, logistics, and high-end chemicals, Linyi City has achieved sustained economic growth. According to the preliminary estimation, the GRP of Linyi City increased by 5.7% YoY to RMB655.6 billion in 2024, ranking 5<sup>th</sup> among prefecture-level cities in Shandong Province. Linyi Municipal Government's general budgetary revenue has also recorded consecutive growth for several years, reaching RMB46.9 billion in 2024. However, Linyi City's fiscal self-sufficiency ability was relatively weak as its general budgetary revenue only cover around half of general budgetary expenses over the past three years.

Tax revenue is a stable source of general budgetary revenue with a relatively high portion of 72.6% on average over the past three years. As of 31 December 2024, Linyi City reported a government debt of RMB195.5 billion, accounting for 29.8% of its GRP.

#### **Exhibit 4. Key economic and fiscal indicators of Linyi City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	577.9	610.5	655.6
GRP Growth (%)	4.2	6.3	5.7
General Budgetary Revenue (RMB billion)	42.0	44.6	46.9
General Budgetary Expenditure (RMB billion)	87.5	92.0	97.6
Local Government Debt (RMB billion)	146.3	169.1	195.5

Source: Statistics Bureau of Linyi City, CCXAP research

### **Government's Willingness to Provide Support**

#### **Strategic policy role in regional development of Linyi City**

LCCI is the largest LIIFC in Linyi City by total assets and mandated by the government to promote both economic development and human well-being of Linyi City. The Company's infrastructure construction, heat and power generation business are all crucial to the local urbanization and infrastructure development in Linyi City. The other two major LIIFCs in Linyi City are Linyi City Development Group Co., Ltd. ("LYCG") and Linyi Investment Development Group Co., Ltd., undertaking infrastructure construction in different areas of Linyi City. LYCG, as the second largest LIIFC in terms of total assets, also provides urban heat and water supply to enterprises and residents in Linyi City. We believe that the important strategic position of the Company to Linyi City's economic development and public welfare is unlikely to be replaced in the short-to-medium term.

LCCI is the core entity for infrastructure construction in Linyi City. The Company takes part in infrastructure construction business through agency construction model and self-constructed mode. Under the agency construction model, the Company signs an entrusted construction contract with the Finance Bureau of Linyi City ("Linyi Finance Bureau") in relation to its infrastructure construction projects. The Company is responsible for financing and construction of the projects assigned by the local government and receives project repayments from the government based on the total cost plus a few percentage markups, generally around 5%, according to the project progress. As of 31 March 2024, the Company had completed 3 key infrastructure projects, including roads and bridges, with a total investment of RMB914.7 million. These projects are public policy projects which are essential to local urbanization and public welfare. At the same time, the Company had one project under construction, with a total planned investment of RMB195 million and uninvested amount of RMB72 million.

The Company also had some infrastructure construction projects under self-constructed model. The Company is responsible for the investment and construction of the railway station area, including the construction of square in Linyi North Station of Lunan High-Speed Railway, surrounding roads as well as transport facilities renovation, with a total completed investment of around RMB11.5 billion. LCCI is expected to achieve fund balancing through government subsidies and operating revenue, such as leasing, car parks, and advertisement. As of 31 March 2024, the Company had 4 key construction projects under construction with a total investment of RMB9.2 billion and outstanding investment of RMB1.6 billion. Large-scale projects in the pipelines can ensure the sustainability of the business, but also bring great pressure on the Company's capital expenditure.

In addition, delegated by the local government, the Company is mainly responsible for the construction of resettlement housing and shantytown renovation in the railway station area. These projects will be handed over to the local government upon completion and the Company also expects to obtain revenue in the form of marketable sales of surplus housing, leasing of commercial area, and financial subsidies. As of 30 September 2024, the Company had 2 completed resettlement housing projects with a total investment of RMB1.8 billion. At the same time, the Company had 3 projects under construction and one project under planning, with a total investment of RMB5.5 billion and an outstanding investment of RMB3.1 billion. The large project reserve ensures the stability and sustainability of the business.

LCCI used to engage in public services including public bus transportation through its wholly-owned subsidiary, Linyi Public Transportation Group Co., Ltd (“LPTG”). The public transportation service has strong public welfare attributes and has sustained gross profit losses over the past three years. In July 2023, the Company’s shareholding in LPTG was transferred to Linyi SASAC, implying that the Company is no longer engaged in the bus operation business in the future, and the profit loss in this segment will be reduced.

Overall, considering the Company’s strong strategic significance to the regional development of Linyi City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **High exposure to commercial activities with large capital expenditure needs**

Apart from public services, LCCI has also been engaged in commercial activities, including self-operating projects, property development, heat and power generation services, wood products manufacturing, financial investment and trading businesses. Some of the Company’s commercial businesses are policy-driven which align with the local development policies of the Linyi Municipal government. At the same time, large expenditures will be incurred, which will exert financing pressure on the Company. This is mainly due to the large-scale of construction projects such as commercial housing and self-operated construction. We consider LCCI’s commercial business exposure to be relatively high with large capital expenditure needs, accounting for more than 30% of its total assets.

As the main developer and operator of Linyi City, LCCI also engages in a series of self-operated construction projects, such as civil service center, sports center, and industrial parks. The Company is expected to achieve fund balancing through future operating income, such as leasing and ticketing. As of 31 March 2024, there were 3 key self-operating projects under construction and one project under planning, with a total estimated investment of RMB10.8 billion and uninvested amount of RMB4.4 billion. Most of these projects are policy-driven with the aim to simulate the economic growth and social benefit of Linyi City. The Company is expected to receive government subsidies and government special-purpose bonds to support the construction of these projects. For instance, the Linyi Olympic Sports Centre project mainly includes the construction of stadium, cultural center, and national fitness center. The Company has received special financial allocation from the local government for the Linyi Olympic Sports Centre project. After the completion, it would be used to host national large-scale sports events. We believe the riskiness of the business is manageable as the development of these self-operating projects is aligned with the blue print of the local government.

LCCI also participates in property development business. All the Company’s commercial housing projects under construction are in core areas of Linyi City. As of 30 September 2024, the Company had completed 2 commercial housing projects, with a total investment of RMB5.6 billion, most of which had been sold. At the same time, the Company had 4 major property development projects under construction with a total investment of RMB9.6 billion and an outstanding investment of RMB2.0 billion. However, increasing investment in property

development may bring more operating uncertainties and financial risks to the Company as the property sales are easily affected by the market conditions, particularly during the economic downturn in China.

LCCI takes part in wood products manufacturing business, which has contributed a relatively large proportion to the Company's total revenue. This business segment involves research, development, manufacture and sales of wooden furniture, home decoration materials, prefabricated housing and aluminum alloy doors and windows. The customers are concentrated in real estate enterprises, which may bring more operating uncertainties and recovery risks to the Company especially during the recent downturn in the China's property market. The revenue from wood products manufacturing business slightly decreased from RMB2.3 billion in 2022 to RMB2.1 billion 2023. LCCI has further strengthened its internal control measures, such as increasing the proportion of prepayments and payment on delivery from customers, and stopping the cooperation with risky real estate enterprises.

LCCI's heat and power generation services mainly include photovoltaic power generation and providing heat to wood enterprises in Linyi City. The Company is engaged in construction of photovoltaic power stations, community and industrial park energy stations, which is at the early stage of development and has limited contribution to the revenue. In 2023, due to reduced demand from downstream wood enterprises affected by the property market, the Company achieved revenue from heat and power generation services of RMB649.0 million, a decrease of 31.6% YoY, with a gross profit margin of 15.7%. As of 30 September 2024, the Company owned pipe network with a length of 290 kilometers, and heating capacity of around 3.6 million square meters for residential heating and 600 tons per hour for non-residential heating, respectively. The Company also had 2 feed pump renovation projects under construction, with a total investment of RMB9.7 million. LCCI's heat and power generation services are susceptible to changes in raw material prices and downstream demand, resulting in some uncertainty in the profitability of this business segment in the future.

LCCI conducts financial investment through equity investment and industrial fund investment. The Company's financial investment primarily serves the industrial upgrading in Linyi City by investing in various industries such as new materials, intelligent equipment manufacturing, new energy, and electronic information. As of 30 September 2024, the Company had 14 key direct equity investment projects, with a total investment amount of RMB1.0 billion. In terms of fund investment, the Company had participated in the establishment of the industrial investment funds as a limited partner. As of 30 September 2024, the Company had invested in 7 industrial funds with a total paid-up capital of RMB361.8 million and a cumulative investment return of RMB52.9 million. The financial investments business may have significant volatility due to the early stage of the investment business. Meanwhile, it is sensitive to the performance of invested companies and changes in the economic situation.

Moreover, the Company engages in trading business, including the supply of coal, steel, aluminum ingots and nuts. The Company adopts demand-on-purchase mode which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. In 2023, the Company achieved trading revenue of around RMB5.4 billion with a relatively low gross profit margin of 2.3%. Although this segment can provide the Company with additional income, the Company is exposed to certain concentration risks. The top 5 suppliers accounted for 47.5% of the total procurement in the first three quarters of 2024. Apart from that, the Company is also exposed to certain degree of counterparty risk relating to its downstream customers.

### **Solid track record of receiving government support**

As the core operating entity carrying out municipal development activities and providing public services in Linyi City, LCCI has a solid track record of receiving government support from Linyi Municipal Government, including government subsidies, capital injection, asset transfer, and payment for infrastructure construction projects,



which could help the Company meet its policy objectives and financial obligations. Since its establishment, the local government has injected various assets into the Company, including land, properties, and equity interest. For example, the local government has transferred its shareholding in some state-owned enterprises to LCCI in the past few years, enlarging the Company's capital strength.

In addition, the Company received ongoing government subsidies for carrying out construction projects such as Linyi Olympic Sports Centre, square in Linyi North Station of Lunan High-Speed Railway, and public transportation business. From 2023 to 2024Q3, LCCI has received government subsidies with a total amount of approximately RMB2.3 billion. Moreover, the Company also has a track of obtaining special government bonds for its agency construction projects. The Company has received special government bonds totaling approximately RMB1.5 billion from 2023 to 2024Q3, which could alleviate the pressure on capital expenditure arising from construction projects. Considering LCCI's irreplaceable role in the development and public welfare of Linyi City and its close relationship with Linyi Municipal Government, we expect that the Company will continue to receive government support over the next 12 to 18 months.

### **Increasing debt burden and moderate asset liquidity**

Due to the ongoing financing for its infrastructure construction and property development projects in recent years, LCCI demonstrates a rapid debt growth. As of 30 September 2024, the Company's total debt rose to RMB51.1 billion from RMB40.6 billion as of end-2022, while its total capitalization ratio increased to 58.3% from 53.1% over the same period. In addition, the Company has been facing certain liquidity pressure as its short-term debt accounted for 49.3% of total debt at the end of September 2024. Meanwhile, the cash to short-term debt ratio was 0.3x as of the same date, indicating short-term refinancing pressure. Given the Company's large capital expenditure needs for its infrastructure construction and property development projects, we expect that the Company's debt level will continue to grow in the next 12 to 18 months.

In addition, LCCI has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories, receivables accounts, fixed assets and construction in progress, accounting for more than 60% of its total asset as of 30 September 2024. The inventories and construction in progress are mainly cost of infrastructure construction, property development, and self-operating construction projects, while receivables were mainly receivables from the local government and other state-owned enterprises, all of which are considered low liquidity. Furthermore, LCCI has provided loans to local enterprises and government departments in Linyi City with certain recovery risks. As of 31 December 2024, the Company had around overdue principal of RMB1.5 billion in other receivables, of which RMB518.8 million were from private-owned enterprises. As of 30 September 2024, the Company's total restricted assets amounted to RMB13.4 billion, accounting for 13.8% of total assets, mostly due to borrowings. Moderate asset liquidity may also undermine the Company's financing flexibility.

### **Good access to funding with sufficient bank facilities**

LCCI has good access to different sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. The Company has built a close relationship with large domestic banks, such as Agricultural Development Bank of China, Evergrowing Bank Co., Ltd., and China CITIC Bank. As of 30 September 2024, the Company has obtained total credit facilities of RMB59.9 billion, with an unutilized amount of RMB22.3 billion, indicating sufficient standby liquidity.

The Company also has a track record of fund-raising activities in both onshore and offshore debt capital markets. It has issued several types of debt products such as medium-term notes (“MTNs”), private placement notes (“PPNs”) and corporate bonds. From 2024 to March 2025, the Company has raised RMB11.5 billion on the onshore debt market through. In terms of the offshore debt market, the Company issued 3 tranches of offshore bonds in 2024, raising RMB460.0 million and USD400.0 million. However, the Company has a relatively high reliance on direct financing, accounting for over half of the total debt. The refinancing stability of the Company may be easily affected by the fluctuations in the capital market. LCCI's exposure to non-standard financing is manageable, accounting for around 10% of the total debts.

## ESG Considerations

LCCI is exposed to environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

LCCI bears social risks as it implements public policy initiatives by undertaking infrastructure construction and providing public transportation service in Linyi City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

LCCI's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, reflecting its public-policy role and status as a government-owned entity.

## Rating Methodology

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



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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656