

Credit Opinion

9 May 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

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Longkou Longtou State-owned Holding Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Longkou Longtou State-owned Holding Development Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Longkou Longtou State-owned Holding Development Co., Ltd. ("Longkou Longtou" or the "Company") reflects Longkou City Government's (1) very 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 Longkou City Government's capacity to support reflects its sound economic fundamentals and ongoing growing fiscal strength, with comprehensive strength ranked the first tier among the top 100 counties in China.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strategic importance in the urban development and operation of Longkou City; (2) solid track record of receiving government support; and (3) good access to funding.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt burden with relatively high capital expenditure pressure; and (3) moderate asset liquidity.

The stable outlook on Longkou Longtou's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its strategic importance position in Longkou City, will remain largely unchanged over the next 12-18 months.

Rating Drivers

- Strategic importance in urban development and operation in Longkou City
- Essential entity in provision of urban comprehensive operations services
- Solid track record of receiving government support
- Medium exposure to commercial activities
- Increasing debt burden and moderate asset liquidity
- Good access to funding

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Longkou City 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 reduced strategic significance or weakened funding ability.

Key Indicators

	2022FY	2023FY	2024FY
Total Asset (RMB billion)	56.1	61.3	65.6
Total Equity (RMB billion)	31.1	32.1	33.0
Total Revenue (RMB billion)	2.7	2.7	2.9
Total Debt/Total Capital (%)	42.6	45.1	46.3

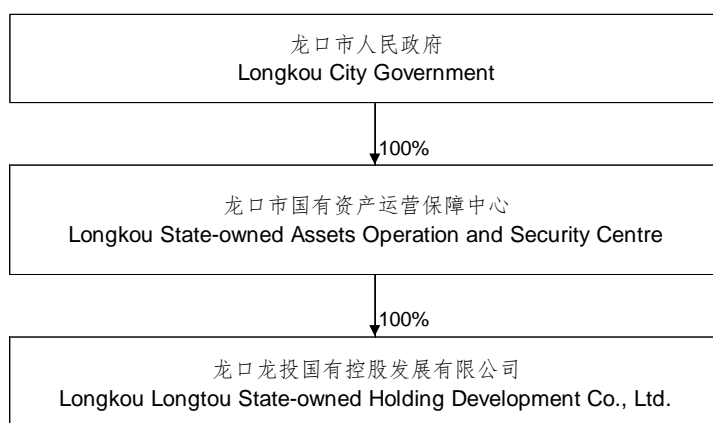
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company Information, CCXAP research

Corporate Profile

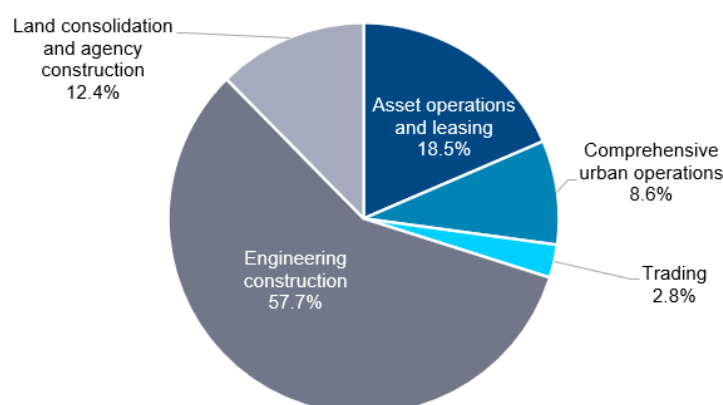
Established in June 2021, Longkou Longtou is the most important local infrastructure investment and financing company ("LIIFC") in Longkou City, Yantai City, Shandong Province. The Company is the largest state-owned enterprise by asset and primarily responsible for key urban development and operation activities, including land consolidation and agency construction, engineering construction, and comprehensive operations services in Longkou City. Apart from urban development projects, the Company takes part in commercial activities such as asset operations and leasing as well as trading. As of 31 December 2024, the Company was wholly owned by the Longkou State-owned Assets Operation and Security Centre. The Longkou City Government was the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 31 December 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 Longkou City Government has a very strong capacity to provide support given its sound economic fundamentals and ongoing growth fiscal strength.

Shandong Province is the third largest province in China by gross regional products ("GRP") in 2024, with a solid foundation in different industries such as logistics, shipbuilding, marine technology, chemical, automotive, and agri-food. Yantai City is located in the middle of the Shandong Peninsula, focusing on 9 major industries: green petrochemicals, nonferrous and precious metals, equipment manufacturing, electronic information, auto parts, food deep processing, new materials, biomedicine and new energy. In 2024, Yantai City reported a GRP of RMB1.1 trillion, increased by 6.1% year-over-year ("YoY"), and ranked 3rd among prefecture-level cities in Shandong Province. Its fiscal balance was moderate, with an average fiscal balance ratio (general budgetary revenue/general budgetary expenses) of 69.7% over the past three years. In 2024, Yantai City achieved tax revenue of RMB42.8 billion, accounting for around 61.3% of the general budgetary revenue. As of 31 December 2024, Yantai Municipal Government reported an outstanding government debt of RMB251.2 billion and accounted for 23.3% of its GRP.

Exhibit 3. Key economic and fiscal indicators of Yantai City

	2022FY	2023FY	2024FY
GRP (RMB billion)	951.6	1,016.2	1,078.3
GRP Growth (%)	5.1	6.6	6.1
General Budgetary Revenue (RMB billion)	63.5	67.4	69.9
General Budgetary Expenditure (RMB billion)	92.3	95.3	100.5
Local Government Debt (RMB billion)	181.6	209.9	251.2

Source: Yantai Municipal Government, CCXAP research

Longkou City is a county-level city under the jurisdiction of Yantai City, focusing on the upgrading of its transitional manufacturing industries, including high-end chemical industry, high-end aluminum materials, high-end equipment manufacturing, as well as grain and oil, and food processing. Meanwhile, Longkou City is also expanding into emerging industries such as clean energy, information technology, and biomedicine. According to the *2024 High-quality Development of County in China Report* released by *Yicheng Economic Consulting Center*, Longkou City ranked 15th among the top 100 counties with high-quality development in 2024. Longkou City has strong economic strength, ranking 2nd by GRP among 13 districts/counties in Yantai City over the past three years. In 2024, it achieved a GRP of RMB164.3 billion, representing a YoY increase of 6.7%. Meanwhile, Longkou City Government's general budgetary revenue maintained a growth trend, increasing steadily from RMB11.3 billion in 2022 to RMB12.3 billion in 2024. It also has a healthy fiscal profile, with a high average fiscal balance ratio of 96.7% over the past three years. In addition, the government fund income is an important supplement to Longkou City's revenue sources, but it is greatly affected by the land market. Longkou City Government's debt profile was moderate. As of 31 December 2024, its outstanding government debt was RMB36.2 billion, accounting for 22.0% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Longkou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	138.2	151.1	164.3
GRP Growth (%)	6.0	7.6	6.7
General Budgetary Revenue (RMB billion)	11.3	11.9	12.3
General Budgetary Expenditure (RMB billion)	11.5	12.6	12.7
Local Government Debt (RMB billion)	20.8	21.9	36.2

Source: Longkou City Government, CCXAP research

Government's Willingness to Provide Support**Strategic importance in urban development and operation in Longkou City**

Longkou Longtou is the largest LIIFC in Longkou City by total assets, and is closely related to the economic and social development of Longkou City. The Company was commissioned by the Longkou City Government to undertake land consolidation and agency construction, engineering construction, and comprehensive operations services. We believe that the Company is unlikely to be replaced by other local state-owned enterprises ("SOEs") in the next 12-18 months, given its important strategic position in the economic development and public welfare of Longkou City.

The Company is responsible for the shantytown renovation in Longkou City and has developed competitive advantages in the business over the years. Entrusted by the government, the Company conducts shantytown renovation projects under the government purchase model with assignments. The Company is responsible for

the early preparation, financing, investment, and management of the projects. The projects are then handed over to the local government, with payments are made at the construction cost of the project plus an additional 15.0%. As of 30 June 2024, the Company had 7 key shantytown renovation projects under construction, with an estimated investment amount of RMB3.5 billion and an uninvested amount of RMB301.0 million. At the same time, the Company has received repayments of RMB1.2 billion from these projects. As of mid-2024, there were no shantytown renovation projects under planning.

The Company also participates in urban renewal projects, mainly focusing on the renovation and upgrading of old residential areas, old factory areas, old blocks and urban villages in Longkou City. As of 30 June 2024, the Company's major urban renewal project under construction is the Urban Renewal and Renovation Project of Longkou City 435 Area, with a planned total investment of RMB2.8 billion and an uninvested amount of RMB1.5 billion. The Company is expected to achieve fund balancing through the sales and leasing of properties (including commercial housing, supporting commercial complexes, and underground buildings), property management fees, parking lots, charging piles, and advertising fees. However, during the downturn in China's property market, the sales progress of properties would suffer from high volatility. Moreover, the leasing and sales of office buildings largely depend on the local economic development. Furthermore, the investment period of urban renewal projects is relatively long, leading to more uncertainties in fund balancing.

In addition, Longkou Longtou has a dominant position in the land development and consolidation business in Longkou City. The Company has signed an agreement with the Longkou City Land and Resources Bureau to carry out primary land development and consolidation in the authorized area, and to take over responsibilities such as demolition and resettlement, roads construction, water and electricity supply, and land formation. The Company achieves fund balancing by offering land for sale on the open market following the land bidding and auction procedures. However, the land development business is sensitive to government planning and local land market conditions. Affected by Longkou City's land transfer plan and market demand, the Company has not yet realized any land consolidation income since 2023. As of 30 June 2024, the Company had no land development and consolidation projects under construction or planning, indicating low business sustainability. The Company has 65 land reserves with a total area of 2.3 million square meters, all of which meet the transfer standards, mainly commercial and residential land, with a total book value of RMB2.7 billion.

Essential entity in provision of urban comprehensive operations services

Longkou Longtou is the core entity for engineering construction in Longkou City. The Company is responsible for financing and constructing of the projects. As of 30 June 2024, the Company had completed several engineering construction projects, with a total investment of RMB7.6 billion and received repayment of RMB4.8 billion. Meanwhile, the Company had 11 main engineering construction projects under construction, with a total estimated investment of around RMB12.5 billion and an uninvested amount of RMB1.9 billion. These projects mainly include public service facilities and road projects, which are crucial to the public welfare of Longkou City residents. As of mid-2024, the Company had no planning engineering construction projects.

Longkou Lontou also provides urban comprehensive operations services in Longkou City, including water supply, sewage treatment, greening, and heat supply services. These public services are indispensability and of great importance to the livelihood of Longkou City.

Following the transfer of 3 reservoirs from the local government in 2009, the Company engages in industrial and agricultural water supply business in Longkou City and has a monopoly in the region. As of 30 June 2024, the Company had a daily water supply capacity of 92 thousand tons, and an annual water sales volume of over 27 million tons. In addition, the Company provides sewage treatment services in Longkou City and operates 3

sewage treatment plants with a sewage treatment capacity of 160,000 cubic meters per day. As of 30 June 2024, the Company had 2 water conservancy projects under construction, with a total investment amount of RMB4.6 billion and an uninvested amount of RMB1.0 billion. Along with the completion of these projects, the Company's revenue from water supply and sewage treatment is expected to increase.

Solid track record of receiving government support

As the most important LIIFC carrying out local constructions and providing urban comprehensive operations services in Longkou City, Longkou Longtou has a solid track record of receiving support from the local government, including equity and asset transfers, cash injections, subsidies, and project payments. Since its establishment, the local government has injected various assets into the Company, including equity interest and operational resources, which strengthened the Company's capital strength and broadened its business scope. Since 2023, the Longkou City Government has transferred several local SOEs to the Company, making it the most important urban construction and state-owned asset operation entity in Longkou City. Most of the injected assets are expected to generate supplementary income for the Company, such as the transfer of marine area use rights, generating a stable cashflow to the Company. Moreover, the Company received ongoing subsidies. Given its strong importance in regional development of Longkou City, we expect the Company will continue to receive support from the local government in the foreseeable future, which will further enhance its operating and capital strength accordingly.

Medium exposure to commercial activities

In addition to its public activities, Longkou Longtou also participated in commercial businesses such as asset operations and leasing as well as trading. Although the commercial assets account for a relatively large proportion of total assets, we consider the Company's risk exposure to commercial activities to be manageable as some of the assets are transfers from the shareholders without compensation.

The Company participates in the asset operations and leasing business with a diverse range of leasable properties, including integrated pipelines and corridors, office buildings, parking lots, and marine area use rights. The leasable assets are mostly transferred by the local government, while some are purchased or constructed by the Company itself. For example, Longkou State-owned Assets Operation and Security Centre granted the Company several marine usage rights from 2015 to 2021. These marine usage rights were mainly leased to the government units and SOEs, with a relatively long lease term, generally 4 to 9 years, providing a relatively stable cashflow to the Company. However, as of end-2023, the receivables from the leasing business amounted to approximately RMB263 million, indicating a delay in rental payments.

The Company also carries out self-operated projects construction to expand the asset operations and leasing business. As of 30 June 2024, the Company had 4 projects under construction with a total investment of RMB8.9 billion and an uninvested portion of RMB5.1 billion. At the same time, there were 3 projects under planning with an estimated investment amount of RMB5.4 billion. The relatively large investment needs from self-operated projects bring certain capital pressure to the Company. In the future, with the completion of projects under construction, the leasing income is expected to increase, bringing additional revenue to the Company. However, the leasing business would be affected by the local economic conditions and developments.

Increasing debt burden and moderate asset liquidity

Longkou Longtou's debt has increased rapidly over the past three years due to continued investment in its public and self-operated construction projects. The Company's total debt increased from RMB23.1 billion at

end-2022 to RMB28.5 billion at end-2024; while its total capitalization ratio rose from 42.6% to 46.3%. Meanwhile, short-term debt accounted for 26.0% of its total debt at the end of 31 December 2024, with a cash to short-term debt ratio was 0.2x as of same date, representing a relatively large short-term repayment burden. Given the Company's large capital expenditure requirements for its projects under construction, and the delayed repayment of public construction and self-operated projects, we expect the Company's debt level will remain a high level in the next 12 to 18 months.

Longkou Longtou's assets liquidity was moderate. As of end-2024, other receivables, inventories, investment properties, and intangible assets accounted for 73.7% of its total assets. Other receivables were mainly receivables from the local government and other SOEs. Inventories were primarily the cost of engineering construction, shantytown renovation, and urban renewal projects. At the same time, investment properties were mainly the leasable assets, while the intangible assets were mainly the land and marine usage rights. All these assets are considered to have low liquidity, as they are relatively difficult to convert into cash and less accessible for quick cash needs.

Good access to funding

Longkou Longtou has good access to multiple financing channels, including bank loans, onshore and offshore bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity constraint. The Company has built a close relationship with large domestic banks such as Agricultural Development Bank of China and Evergrowing Bank Co., Ltd. As of 30 June 2024, the Company has obtained total bank facilities of RMB19.5 billion, with unitized portion of RMB2.6 billion.

In addition, the Company has a track record of fund-raising activities in both onshore and offshore debt capital markets through its subsidiaries. The Company have issued several types of debt products such as private placement notes and corporate bonds. From January 2023 to December 2024, the Company has raised RMB3.6 billion through 6 tranches of debt instruments. Moreover, the Company also has a presence in the offshore debt market. For instance, the Company issued a tranche of 3-year offshore bond in 2023 with a coupon rate of 5.5%, raising RMB710.0 million. As the Company has a relatively high reliance on direct financing, accounting for more than 40% of the total debts, the refinancing stability of the Company may be easily affected by the fluctuations of capital market. The Company has manageable exposure to non-standard financing products (mainly financial leasing and trusts), accounting for less than 10% of the total debts.

ESG Considerations

Longkou Longtou faces environmental risks through its infrastructure construction and land development projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

Longkou Longtou bears social risks as it implements public policy initiatives by building public infrastructure in Longkou 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.

Longkou Longtou's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, 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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