

## Credit Opinion

26 March 2025

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub> +
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Qingdao Jiaozhou Bay Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+** to Qingdao Jiaozhou Bay Development Group Co., Ltd., with stable outlook.

### Summary

The BBB<sub>g</sub> long-term credit rating of Qingdao Jiaozhou Bay Development Group Co., Ltd. ("QJBD" or the "Company") reflects the Jiaozhou Municipal Government's (1) very strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects that Jiaozhou City's economic status ranks top in Qingdao City. Meanwhile, the Jiaozhou Economic and Technological Development Zone ("Jiaozhou EDZ") and the China-Shanghai Cooperation Organization Local Economic and Trade Cooperation Demonstration Area ("SCO Demonstration Area") is gradually developing with outstanding strategic importance in Jiaozhou City.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) status as the major entity to develop the Jiaozhou EDZ and the SCO Demonstration Area; (2) good track record of receiving government support; and (3) diversified financing channels.

However, the rating is constrained by the Company's (1) medium risk exposure to commercial activities; and (2) relatively high debt burden and moderate asset liquidity.

The stable outlook on QJBD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company's strategic position, such as its important role in the development of the Jiaozhou EDZ and the SCO Demonstration Area, will remain unchanged over the next 12-18 months.

## Rating Drivers

- Major entity to develop the Jiaozhou EDZ and the SCO Demonstration Area
- Medium risk exposure to commercial activities
- Good track record of receiving government support
- Relatively high debt burden and moderate asset liquidity
- Diversified financing channels

## Rating Sensitivities

### What could upgrade the rating?

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

### What could downgrade the rating?

The rating could be downgraded if (1) the local 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, deteriorated financing capacity, or decreased government payments.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	49.6	84.1	94.7	101.4
Total Equity (RMB billion)	18.1	40.9	41.8	39.4
Total Revenue (RMB billion)	2.5	2.8	3.3	2.2
Total Debt/Total Capital (%)	61.6	49.0	50.3	51.8

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

Source: Company data, CCXAP research

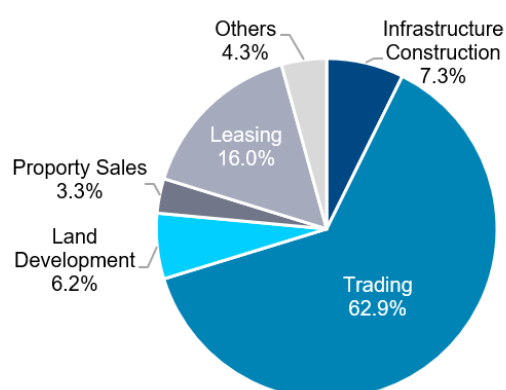
## Corporate Profile

Founded in 2007, QJBD is an important infrastructure construction and investment and financing entity in Jiaozhou City. Since its establishment, QJBD has been engaging in the infrastructure construction and primary land development in the Jiaozhou EDZ and the SCO Demonstration Area. Meanwhile, QJBD commenced different commercial activities, such as property development, leasing, and trading.

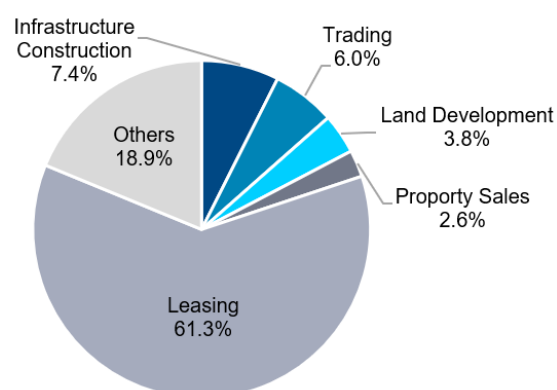
In 2022, the State-owned Assets Service Centre of Jiaozhou City ("Jiaozhou SASC") transferred its entire equity holding in the Company to Qingdao Shanghe Holding Development Co., Ltd. ("Qingdao Shanghe Holding"), which is the major entity responsible for investment and financing of infrastructure development in the SCO Demonstration Zone. As of 30 September 2024, QJBD is indirectly and wholly owned by Jiaozhou SASC, which has delegated the daily supervision of the Company to the Management Committee of SCO Demonstration Area, being the current actual controller of the Company.

**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

**Exhibit 3. Gross profit structure in 2023****Rating Considerations****Government's Capacity to Provide Support**

We believe Jiaozhou City Government has a very strong capacity to provide support, given its economic status ranks top in Qingdao City. Meanwhile, the Jiaozhou EDZ and the SCO Demonstration Area is gradually developing with outstanding strategic importance.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported a GRP of RMB1,671.9 billion in 2024, ranking first in Shandong Province. Qingdao City also has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70% of its general budgetary expenditure, and tax incomes accounted for more than 70% of its general budgetary revenue on average. As of end-2024, its government's debt/GRP was 26.2%.

**Exhibit 4. Key economic and fiscal indicators of Qingdao City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	1,492.1	1,576.0	1,671.9
GRP Growth (%)	3.9	5.9	5.7
General Budgetary Revenue (RMB billion)	127.3	133.8	133.9
General Budgetary Expenditure (RMB billion)	169.6	171.9	172.0
Local Government Debt (RMB billion)	308.0	362.0	438.3

Source: Qingdao Municipal Government, CCXAP research

Located in the southwest of Shandong Peninsula and the north shore of Jiaozhou Bay, Jiaozhou City is a county-level city under the jurisdiction of Qingdao City, with outstanding geographical and transportation advantages. Jiaozhou City has the sole national-level airport economic demonstration zone, the sole airport comprehensive bonded zone and the sole container center in Shandong Province that connect the SCO and countries along the Belt and Road, demonstrating strong regional advantages and policy importance. Jiaozhou City's key industries cover metal products manufacturing, electrical machinery and equipment manufacturing, special equipment manufacturing, and business services, with a number of listed companies. In recent years, Jiaozhou City's economy has ranked top all the counties and districts in Qingdao City. In 2024, it achieved a GRP of RMB172.8 billion, representing a Year-on-Year growth rate of 5.9%. Over the past three years, Jiaozhou City's tax income has become a relatively stable and important source of its general budgetary revenue, and it has a strong fiscal self-sufficiency rate of over 80%. As of 31 December 2024, the local government debt amounted to RMB45.2 billion, representing for 26.2% of the GRP.

**Exhibit 5. Key economic and fiscal indicators of Jiaozhou City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	154.1	164.3	172.8
GRP Growth (%)	5.0	6.8	5.9
General Budgetary Revenue (RMB billion)	11.3	11.6	11.1
General Budgetary Expenditure (RMB billion)	14.0	13.4	12.9
Local Government Debt (RMB billion)	30.7	36.4	45.2

Source: Statistics Bureau of Jiaozhou City, CCXAP research

In June 2018, the Chinese government announced the establishment of the SCO Demonstration Zone in Qingdao City, with the objective of establishing a new platform for international cooperation under the Belt and Road Initiative. The core area of the SCO Demonstration Zone is located in Jiaozhou City, which includes the Jiaozhou EDZ of 36.7 square kilometers and the planned new area of 24.4 square kilometers. Jiaozhou EDZ was established in 1992 and was upgraded to a national-level development zone in 2012. Seven major industrial clusters in Jiaozhou EDZ include high-end manufacturing, electric power equipment, modern logistics, smart home, Internet+, medical biology and automobile manufacturing.

**Government's Willingness to Provide Support****Major entity to develop the Jiaozhou EDZ and the SCO Demonstration Area**

QJBD is an important infrastructure construction and investment and financing entity in the Jiaozhou EDZ and the SCO Demonstration Area, responsible for infrastructure construction and primary land development tasks with regional exclusive advantages. Since its establishment, the Company has undertaken and completed a large number of projects with strategic importance to the Jiaozhou EDZ and the SCO Demonstration Area,

which plays an important role in regional development and is in line with the policy guidance of the local government.

QJBD conducts its infrastructure construction business under the government repurchase business model. The Company signed an infrastructure construction agreement with the Finance Bureau of Jiaozhou City, and is responsible for the financing and construction of the infrastructure construction projects in Jiaozhou EDZ, including road construction, river management, and land acquisition and demolition. After the construction is completed, the Jiaozhou Municipal Finance Bureau or relevant departments will repurchase the project from QJBD, with the total construction cost plus certain return in mark-up. The total estimated investment was RMB10.0 billion, and the Company has invested RMB8.4 billion as of 30 September 2024. The Company's construction activities are mainly financed by external financing, supplemented by special government bonds.

QJBD was commissioned by the Jiaozhou Municipal Government to develop primary land in the Jiaozhou EDZ and the SCO Demonstration Area, including organizing and implementing land acquisition and relocation, and construction of municipal supporting facilities. The government approves the costs incurred by the Company for land consolidation and pays the Company with construction cost plus 15% of the management fee. As of 30 September 2024, the total investment in the Company's land consolidation projects was RMB6.0 billion, and the remaining investment was RMB580.0 million. There were no land development projects under planning.

### **Medium exposure to commercial activities**

QJBD has a medium exposure to commercial activities such as property development, property leasing, self-operated projects and trading. Despite these kinds of activities that contribute large revenue and profit to the Company, they have higher commercial elements and are mostly self-sustaining compared to infrastructure projects. In addition, we expect QJBD's commercial exposure to increase as investments continue.

QJBD's property development business mainly refers to the construction and sale of residential projects in the Jiaozhou EDZ and the SCO Demonstration Area. As at 30 September 2024, the Company's completed property was Guanlan Wenyuan with a total investment of RMB740.0 million, and the total contracted sales amount of approximately RMB557.0 million. Meanwhile, it had one residential property project under construction, with an estimated total investment of RMB1.5 billion and the remaining investment of RMB582.0 million. Overall, the sales progress of the property projects has been affected by the downturn of the Chinese real estate market and is dependent on the development of SCO Demonstration Area.

QJBD's leasable assets are mainly located in the Jiaozhou EDZ and the SCO Demonstration Area, and are mainly from self-construction and government allocations, including office buildings, industrial plants, and water use right. Tenants consist of the Management Committee of the SCO Demonstration Area and enterprises settled in the area. The occupancy rate is high as most of the assets were leased out as a whole. In addition, the Company leased the water use right to the Management Committee of SCO Demonstration Area for annual rental fees of RMB100.0 million, which was transferred from the Management Committee with an estimated total value of RMB4.0 billion. The rental revenue has increased from RMB376.1 million in 2021 to RMB532.7 million in 2023 and RMB443.7 million in 2024Q3. Apart from that, the Company launched several self-operated projects under construction with a total investment of RMB13.0 billion and outstanding investment of RMB7.5 billion, as of 30 September 2024. These projects are expected to generate revenue primarily from leasing or operating activities, such as parking fees, while the payback period are long.

QJBD's trading business mainly includes the sale of steel, frozen seafood, grain and oil. The Company trading business is based on purchase demand and earns the price difference between upstream and downstream with

limited profit. From 2021 to 2023, the revenue generated from trading business increased from RMB1.3 billion to RMB2.1 billion, representing more than half of the Company's total revenue. The Company is also exposed to concentration risks from upstream and downstream customers, with top 5 customers and suppliers accounting for more than 78.0% of the total sales and procurement during the first three quarters of 2024. Moreover, most of the downstream customers are private-owned enterprises in Qingdao City, which may increase the recovery risk of the trading business.

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

In recognition of the strategic importance to the Jiaozhou EDZ and the SCO Demonstration Area, QJBD has a good track of receiving various kinds of support from the Jiaozhou Municipal Government, including operating subsidies, asset injections, and equity transfer. From 2021 to 2024Q3, the Company received sustained subsidies from the local government with a total amount of RMB1.3 billion. Meanwhile, QJBD's capital reserve increased from RMB13.8 billion from 2021 to RMB33.4 billion as at 30 September 2024, benefiting from the continuous asset and equity transfer, including buildings and shares of state-owned enterprises ("SOEs"). Given the Company's important position and function role in the Jiaozhou EDZ and the SCO Demonstration Area, we believe that QJBD will continue to receive various kinds of support from the local government.

### **Relatively high debt burden and moderate asset liquidity**

QJBD primarily relies on external financing to satisfy its capital requirements for construction projects and it has incurred a relatively high debt burden. From 2021 to 2023, the total debt increased from RMB29.0 billion to RMB42.4 billion, with a compound annual growth rate of 20.8%. During the first three quarters of 2024, the debt decreased slightly to RMB42.3 billion due to the repayment of matured bonds. The total capitalization ratio, calculated by total debt to total capital, dropped in 2022 due to the growth in equity and showed a rising trend from 2023, reaching 51.8% as of 30 September 2024. Meanwhile, the Company's short-term debt accounted for 39.3% of the total debt, and the cash to short-term debt ratio was low at 0.1x, indicating high short-term debt pressure. It's expected that the Company's debt will continue to grow and the leverage ratio will remain at a relatively high level given its continued reliance on external financing to fund business operations and to refinance the existing indebtedness.

The Company's asset liquidity is medium. As of 30 September 2024, the Company had a significant amount of inventories and other receivables, which together accounted for 42.4% of its total assets. Its inventories mainly consist of development costs of the infrastructure projects and land use rights, and receivables were mainly from the local government and other SOEs. In addition, the Company's long-term equity investments mainly consisted of equity interests in local SOEs transferred from the local government, accounting for 14.9% of total assets; construction in progress, accounting for 11.3% of total assets, including inputs for infrastructure and self-construction projects.

### **Diversified financing channels**

QJBD has access to diversified financing channels to fund its project development and to ensure the indebtedness continuation, mainly including bank loans and debt issuances in domestic and international capital markets. The Company's indirect financing channels are relatively smooth with sufficient standby liquidity cushion. As of 30 September 2024, bank loans accounted for around 47.5% of the Company's total debt. The Company had obtained credit facilities totaling RMB 56.7 billion, of which approximately RMB23.7 billion had not been used. QJBD's cooperative banks include policy banks, state-owned commercial banks, and local urban commercial banks. Meanwhile, QJBD raised funds by issuing corporate bonds, medium-term notes and private

placement notes in domestic capital market, as well as offshore bonds, which together accounted for around 45.8% of the Company's debt as of 30 September 2024. QJBD also had small exposure to non-standard financing products, representing for 5%-10% of the total interest-bearing debt.

## ESG Considerations

QJBD is exposed to environmental risks due to undertaking key infrastructure construction. 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.

The Company bears social risks as it implements public policy initiatives by playing an important role in the development of the Jiaozhou EDZ and the SCO Demonstration Area. 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.

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

## Structural Considerations

QJBD's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strong strategic position in development of the Jiaozhou EDZ and the SCO Demonstration Area, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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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