

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

Hong Kong, 9 May 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of A_g- to Longkou Longtou State-owned Holding Development Co., Ltd. (“Longkou Longtou” or the “Company”), with stable outlook.

The A_g- long-term credit rating of Longkou Longtou 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.

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.

Rating Rationale

Credit Strengths

Strategic importance in the urban development and operation of 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.

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. 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.

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. 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 has manageable exposure to non-standard financing products.

Credit Challenges

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.

Increasing debt burden with relatively high capital expenditure pressure. Longkou Longtou's debt has increased rapidly over the past three years due to continued investment in its public and self-operated construction projects. 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.

Moderate asset liquidity. Longkou Longtou's assets liquidity was moderate. As of end-2024, other receivables, inventories, investment properties, and intangible assets accounted for large portion of its total assets. Other receivables were mainly receivables from the local government and other state-owned enterprises. 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.

Rating Outlook

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.

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.

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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