CCXAP affirms Shandong Hesheng Investment Co., Ltd.'s long-term credit rating at BBB$_g$+, with stable outlook.

Hong Kong, 15 September 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Shandong Hesheng Investment Co., Ltd.'s ("SHIC" or the "Company") long-term credit rating at BBB$_g$+, with stable outlook.

The BBB$_g$+ long-term credit rating of SHIC reflects Jimo District 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 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, 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; (2) strategic important role for the infrastructure construction and economic development in Jimo District, especially in the Economic Development Zone of Jimo District ("Jimo EDZ"); and (3) solid track record of receiving government support. However, the rating is constrained by the Company's (1) moderate risk exposure to commercial activities; (2) higher investment needs which lead to increasing debt level; and (3) relatively high funding cost.

Corporate Profile

Established in January 2020, SHIC is one of the major local infrastructure investment and financing companies ("LIIFCs") in Jimo District, Qingdao City. It is positioned as the key entity for infrastructure construction and state-owned assets operation in Jimo District, and is mainly responsible for infrastructure construction and leasing in Jimo EDZ. The Company is also diversified into other businesses, including self-operated construction and property development. As of 31 March 2025, the Company was wholly owned by the Qingdao Jimo State-owned Assets Operation Service Centre, which is under the direct administration of the Jimo District Government.

Rating Rationale

Credit Strengths

Strategic important role for the infrastructure construction and economic development, especially in the Jimo EDZ. SHIC is one of the key LIIFCs in Jimo District and has contributed significantly to the urban and economic development of Jimo EDZ. It is mainly responsible for infrastructure construction and state-owned assets operation in Jimo EDZ. Given its essential role in the Jimo EDZ's regional development, we believe the Company is expected to maintain its high importance for the Jimo District Government and is unlikely to be replaced by other state-owned enterprises in the short-to-medium term.

Solid track record of receiving government support. In recognition of the importance of SHIC's businesses to the development of Jimo EDZ, the Company has constantly received comprehensive support from the local government, in terms of asset injections, project repayments, and operating subsidies. In addition, the Company also continued to receive government special purpose bonds for its infrastructure construction projects. In accordance with the terms of the construction agency agreement, the Company is also expected to receive repayments from the local government for its infrastructure construction projects. Considering the vital position of SHIC, we expect the Company to receive ongoing government support from the local government when necessary.

Credit Challenges

Medium risk exposure to commercial activities. To promote investment attraction and industry development, SHIC engaged in leasing, property development, and self-operated construction projects. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its infrastructure construction businesses. Although the Company's commercial assets accounted for more than 30% of its total assets as of 31 March 2025, the Company's risk exposure to commercial activities is considered medium according to our assessment, as most of the commercial assets are leasable assets transferred by the government that are highly compatible with local industrial development.

Increasing debt level due to higher investment needs. SHIC shows rising debt burden owing to its debt-driven business expansion in construction projects over the past few years. Meanwhile, the Company's short-term debt pressure has been alleviated. However, the cash to short-term debt ratio remained low at around 0.2x, indicating a relatively high refinancing need. 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.

Relatively high funding cost and moderate asset liquidity. Bank borrowing accounts for more than half of the total debt. In addition, the Company has tapped into the offshore bond capital market since 2024. However, the cost of offshore bonds is relatively high. Besides, SHIC's asset liquidity was moderate, which may undermine its financial flexibility. The Company's assets consist mainly of fixed assets and intangible assets, accounting for around 68.7% of total assets as of 31 March 2025. Moreover, the Company pledged a number of assets for loans, which reduces its financial flexibility to a certain extent.

Rating Outlook

The stable outlook on SHIC's rating reflects our expectation that the Jimo District Government's capacity to provide support will be stable, and the Company will maintain its importance in the development of Jimo EDZ 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 support strengthens; and (2) the Company's characteristics change in a way that strengths the local government's willingness to 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 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 deteriorated assess to fundings.

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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