CCXAP upgrades Yantai Chefoo Finance Holding Group Co., Ltd.'s long-term credit rating to A_g-, with stable outlook.

Hong Kong, 4 September 2026 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded Yantai Chefoo Finance Holding Group Co., Ltd.'s ("Yantai Chefoo" or the "Company") long-term credit rating to A_g- from BBB_g+, with stable outlook, reflecting the stronger capacity to provide support from Zhifu District Government, driven by Zhifu District's ongoing economic growth and regional industrial potential, which will provide greater momentum for the Company's growth.

The A_g- long-term credit rating of Yantai Chefoo reflects Zhifu 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 Zhifu District Government's capacity to provide support reflects its sound economic fundamentals and fiscal strength, such as high fiscal balance ratio and manageable debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) ultimate control by the Zhifu District Government; (2) strategic importance in the regional development of Zhifu District; (3) solid track record of receiving government support; and (4) good access to funding. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) relatively fast debt growth with relatively large capital expenditure pressure; and (3) moderate asset liquidity.

Corporate Profile

Founded in June 2017, Yantai Chefoo is the most important urban development, operation, and industrial investment entity in Zhifu District, Yantai City, Shandong Province. The Company is the largest state-owned enterprise by asset size and primarily responsible for industry-city integration, urban renewal, urban operation, and industrial investment in Zhifu District. Apart from public development projects, the Company engages in some commercial activities such as property leasing and sales, and trading business. In November 2025, the Zhifu District Finance Bureau executed an uncompensated transfer of a 99.93% equity interest in Yantai Chefoo from the State-owned Assets Operation and Security Center of Zhifu District to Yantai Main City Holding Group Co., Ltd ("MCHG"). As of 31 March 2026, the Company was 99.93% owned by MCHG and 0.07% owned by Yantai Finance Development Investment Group Co., Ltd. The Zhifu District Government was the ultimate controller of the Company.

Rating Rationale

Credit Strengths

Strategic importance in the regional development of Zhifu District. Yantai Chefoo's main businesses are closely related to the economic and social development of Zhifu District, acting as the key urban development, operation, and industrial investment entity commissioned by the Zhifu District Government to undertake industry-city integration, urban renewal, urban operation, and industrial investment. We expect that the Company will continue to undertake public projects within its mandated areas, making it unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Solid track record of receiving government support. Yantai Chefoo has a solid track record of receiving support from the local government in terms of subsidies, capital injections, assets transfers, and payments. Given its dominant position in the urban renewal and infrastructure construction of Zhifu District, 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. Yantai Chefoo has good access to multiple financing channels, including bank loans, bond issuances, and non-standard financing products, which may partially alleviate its capital expenditure pressure and liquidity constrict. The primary sources of funding are bank loans and bond issuances. Meanwhile, the Company had moderate exposure to non-standard financing products.

Credit Challenges

Medium exposure to commercial activities. Yantai Chefoo engages in other commercial activities, including property sales, leasing, and trading. Although the commercial assets accounted for a relatively large proportion of total assets as of 31 March 2026, we estimate the Company's risk exposure to commercial activities to be moderate, as the majority of the assets are properties transferred by the local government without upfront investment capital needs.

Relatively fast debt growth with relatively large capital expenditure pressure. Due to the ongoing investment in Happiness City project and urban infrastructure construction projects, Yantai Chefoo demonstrated relatively fast debt growth during the recent years. Considering the ongoing investment in the Happiness City project and other construction projects as well as the funding gap between government payments and upfront investments, we expect the Company's debt level will continue to increase in the coming 12 to 18 months.

Moderate asset liquidity. Yantai Chefoo's asset liquidity remained moderate. As of the end of March 2026, other non-current assets, inventories, investment properties and intangible assets accounted for a large portion of its total assets. All these assets are considered to have low liquidity.

Rating Outlook

The stable outlook on Yantai Chefoo's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its essential role in urban renewal and urban infrastructure construction in Zhifu District, will remain largely unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zhifu District 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 the exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Zhifu 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 support, such as reduced strategic significance, deteriorated debt management, 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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