

CCXAP assigns first-time long-term credit rating of A_g- to Linyi City Construction Investment Group Co., Ltd., with stable outlook.

Hong Kong, 27 March, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of A_g- to Linyi City Construction Investment Group Co., Ltd. (“LCCI” or the “Company”), with stable outlook.

The A_g- long-term credit rating of LCCI reflects Linyi 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 Linyi Municipal Government’s capacity to support reflects Linyi City’s status as the largest city in Shandong Province in terms of population and area, with ongoing economic growth.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strategic policy role in the regional development of Linyi City, with regional dominance in infrastructure construction and public transportation; (2) solid track record of receiving government support; and (3) good access to funding. However, the rating is constrained by the Company’s (1) high exposure to commercial activities with large capital expenditure needs; (2) increasing debt burden with short-term refinancing pressure; and (3) moderate asset liquidity.

Corporate Profile

Established in May 2013, LCCI is the largest local infrastructure investment and financing company (“LIIFC”) in terms of asset size in Linyi City and plays the most important role in the economic development of Linyi City. The Company is primarily responsible for local key public-policy activities, such as infrastructure construction and public transportation. In addition, the Company is also engaged in commercial activities such as property development, heat and power generation, wood products manufacturing and trading businesses. As of 30 September 2023, the State-owned Assets Supervision and Administration Commission of Linyi Municipal Government (“Linyi SASAC”) directly held 90% of the Company’s shares. The remaining 10% of the shares were held by Shandong Caixin Assets Operation Co., Ltd (“Shandong Caixin”). The Linyi Municipal Government is the ultimate controller of LCCI.

Rating Rationale

Credit Strengths

Strategic policy role in the regional development of Linyi City, with regional dominance in infrastructure construction and public transportation. LCCI is the largest LIIFC in Linyi City by total assets and mandated by the government to promote both economic development and human well-being of Linyi City. The Company’s infrastructure construction, public transportation business, heat and power generation business are all crucial to the local urbanization and infrastructure development in Linyi City. We believe that the important strategic position of the Company to Linyi City’s economic development and public welfare is unlikely to be replaced in the short-to-medium term.

Solid track record of receiving government support. As the core operating entity carrying out municipal development activities and providing public services in Linyi City, LCCI has a solid track record of receiving government support from Linyi Municipal Government, including government subsidies, capital injection, asset transfer, and payment for infrastructure construction projects, which could help the Company meet its policy objectives and financial obligations.

Good access to funding. LCCI has good access to different sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. In the view of LCCI's important status in the regional development of Linyi City, we expect the Company would maintain stable funding access to bank loans and capital markets.

Credit Challenges

High exposure to commercial activities with large capital expenditure needs. Apart from public services, LCCI has also been engaged in commercial activities, including self-operating projects, property development, heat and power generation services, wood products manufacturing, and trading businesses. Some of the Company's commercial businesses are policy-driven which align with the local development policies of the Linyi Municipal government. At the same time, large expenditures will be incurred, which will exert financing pressure on the Company.

Increasing debt burden with short-term refinancing pressure. Due to the ongoing financing for its infrastructure construction and property development projects in recent years, LCCI demonstrates a rapid debt growth. In addition, the Company faces certain liquidity pressure as its short-term debt accounted for 43.5% of total debt at the end of September 2023.

Moderate asset liquidity. LCCI has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories, receivables accounts, fixed assets and construction in progress, accounting for more than 60% of its total asset as of 30 September 2023, all of which are considered low liquidity.

Rating Outlook

The stable outlook on LCCI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic importance position in Linyi City over the next 12-18 months.

What could upgrade the rating?

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

What could downgrade the rating?



The rating could be downgraded if (1) Linyi Municipal Government's capacity to provide 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 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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