

Credit Opinion

2 September 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

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Shandong Public Holdings Limited

Surveillance credit rating report

CCXAP affirms Shandong Public Holdings Limited's long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g long-term credit rating of Shandong Public Holdings Limited. ("SDPH" or the "Company") reflects the Company's (1) dominant role in public utility services sector in Jining City; (2) leading regional contractor in engineering construction; and (3) relatively diversified business structure.

However, the rating is constrained by the Company's (1) high market risk associated with property development; (2) low yield on asset; and (3) increasing debt burden along with weak debt serving capability.

The rating also reflects a very high likelihood of support from the Jining City Municipal Government when needed, which is based on the Company's (1) ultimate control by the Jining Municipal Government; (2) regional importance in public utility services in Jining City; and (3) good track record of receiving ongoing government support from the Jining Municipal Government, including capital injection, equity transfers and financial subsidies.

The stable outlook on SDPH's rating reflects our expectation that the Company will maintain its regional competitiveness and importance in Jining City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government.

Rating Drivers

- Dominant service provider of public utility in Jining City
- Leading regional contractor in engineering construction
- High market risk associated with property development
- Relatively stable revenue scale and profitability along with low yield on asset
- Increasing debt burden along with weak debt serving capability
- Modest liquidity position and diversified funding channel

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government support for the Company increases; or (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt management and liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in profitability or liquidity.

Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	58.5	67.7	77.0	79.2
Total Equity (RMB billion)	15.9	17.9	22.1	22.2
Total Revenue (RMB billion)	12.0	15.0	15.7	3.5
Net Profits (RMB million)	332.0	314.6	361.8	70.0
EBIT Margin (%)	11.2	13.2	11.7	-
Return on Assets (%)	2.6	3.1	2.5	-
Total Debt/Total Capital (%)	61.8	65.1	61.8	63.8
Total Debt/EBITDA (x)	12.4	11.9	12.9	-
EBITDA/Interest (x)	1.9	1.6	1.7	-
FFO/Total debt (%)	7.7	6.5	6.6	-

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

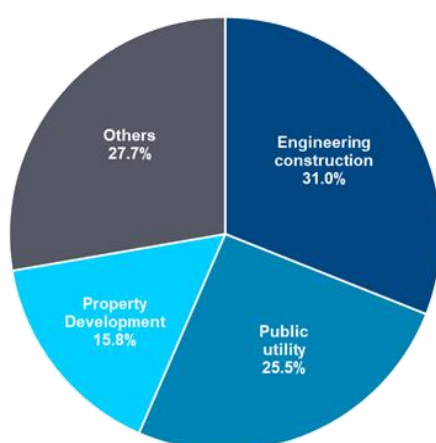
Source: Company data, CCXAP research

Corporate Profile

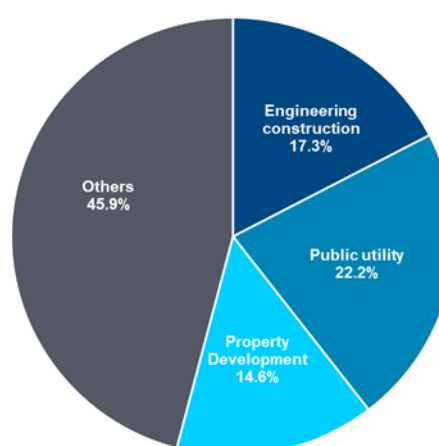
Founded in 1993, SDPH is one of the key local state-owned enterprises ("SOEs") in Jining City. The Company has a strong position in the public utility services of Jining City, including water supply, sewage treatment, and heat supply. It also conducts other commercial businesses including product sales, engineering construction, and property development. In 2024, due to state-owned capital operation plan, the State-owned Assets Supervision and Administration Commission of Jining Municipal Government ("Jining SASAC") transferred its shares in the Company to Shandong Public Utility Industrial Development Co., Ltd. ("SPUI"). As of 30 June 2025, the Jining SASAC remained its status as the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 30 June 2025

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2024**Rating Considerations****Business Profile****Dominant service provider of public utility in Jining City**

SDPH is one of the major local SOEs in Jining City under the control of Jining Municipal Government, and has a strong position in the public utility services in Jining City, including water supply, sewage treatment, and heat supply. It has strong regional monopolistic advantages and plays a key role in the public welfare of the residents in Jining City. Over the past three years, SDPH has generated relatively stable revenue from public utility services of more than RMB3.5 billion each year.

The Company is the most important and largest water supply company in Jining City, responsible for water supply and sewage treatment in urban area of Jining City and the surrounding districts and counties. The water is supplied to residents in Jining City at prices set by the local government. As of 31 March 2025, the Company's total water supply capacity is 829.0 thousand cubic meters per day, servicing around 1.9 million residents within a service area of 265.2 square kilometers. SDPH also had 2 completed water plant that have begun trial operation but were still awaiting project acceptance. These 2 projects are expected to improve the Company's daily water supply capacity of around 200.0 thousand cubic meters. Apart from that, SDPH had one water pipeline project under construction, with a total investment of RMB2.3 billion and outstanding investment of

RMB276.0 million as of 31 March 2025, and the project is expected to be completed by the end of 2025. Furthermore, as this project is a key initiative for ecological conservation and infrastructure construction in the Yellow River Basin, the Company received RMB609.0 million in government special bond funding during the construction phase.

SDPH is also responsible for sewage collection and treatment in Jining City. As of 31 March 2025, the Company owned 19 sewage treatment plants, with a total sewage treatment capacity of around 1.1 million tons per day. SDPH also had one sewage treatment project under construction as of 31 March 2025, with a total investment of RMB10.8 billion and an outstanding investment of RMB3.1 billion. Despite facing substantial capital expenditure pressure, funding from local government special bonds can partially alleviate such pressure. Upon commissioning, the project will expand the Company's wastewater treatment operations to rural areas of Jining City, effectively addressing water pollution issues in these regions. Additionally, the project's revenue streams will primarily consist of wastewater treatment fees and recycled water sales. Considering the relatively large ongoing project investment, we expect the Company to expand its water supply business to more districts and counties by purchasing more water plants in Jining City in the near term, demonstrating strong business stability.

SDPH has a dominant position in heat supply business in Jining City with increasing heat supply capacity. It is the main provider of heat and industrial gas in the main urban area and the five surrounding districts and counties of Jining City. As of 31 December 2024, the Company had 810 heat exchange stations, serving a population of 468.2 thousand households over a service area of around 54.5 million square meters. The Company had realized RMB1.4 billion in revenue from heat supply business in 2024. However, the gross profit margin for this business remained at a loss of -11.9% in 2024, mainly due to the government regulated heating price and relatively high coal prices. The Company had received government subsidy of RMB72.0 million in 2024 to compensate its loss. With the nationwide decline in coal prices, we expect the profitability of the Company's heating supply business to improve in the future. Moreover, the Company also constructed generator sets in Jining City for heat generation. In 2024, the Company delivered power output of 3,334 GWh and generated power sales revenue of RMB1.3 billion, sustaining a healthy 13.9% gross margin.

Leading regional contractor in engineering construction

Apart from public utility services, SDPH also engages in engineering construction business in Jining City. The Company conduct project construction mainly through its subsidiary Shandong Public Utility Construction Group Co., Ltd, and it primarily secures engineering construction projects through open market tendering and bidding, with a focus on water utility projects and municipal engineering projects. In 2024, the Company newly acquired engineering contracts of RMB3.1 billion. Over the same period, it had realized RMB4.9 billion in revenue from engineering construction business, with a stable gross margin of 8.1%. As of 31 December 2024, the Company had RMB5.2 billion of uncompleted contracts in hand, ensuring sustainable income for the upcoming years.

Moreover, SDPH is the principal builder of major public transit projects in Jining City. As of 31 March 2025, the Company had 2 public transportation projects under construction, which are the Elevated Road and Connecting Line Project ("Inner Ring Elevated Road") and Zoucheng to Jining Expressway Project ("Zouji Expressway"). The total investment for these two projects was RMB25.6 billion, and the uninvested amount is around RMB10.2 billion. The main structure of the Inner Ring Elevated Road was completed by the end of 2020 and has been opened to traffic, with peripheral supporting facilities to be progressively improved in the future. Zouji Expressway has a total length of 61.9 kilometers. The Company is expected to balance the fund through future operation such as tolls income. Furthermore, the Company is expected to receive RMB3.9 billion of government

special-purpose bonds for the construction of Zouji Expressway. Nonetheless, the large future investment may bring certain expenditure pressure to the SDPH.

High market risk associated with property development

SDPH also participates in property development business, which can be easily affected by the property market conditions in Jining City. Its property development business mainly focuses on development of residential properties. It conducts property development with some private-owned enterprises, and is concentrated in Jining City. In 2024, the Company's property development business generated revenues of RMB2.5 billion, with a gross margin of 13.4%, which had declined by 2.4% as compare to 2023. As of 31 March 2025, SDPH had completed 7 major real estate projects, with a total investment of RMB10.1 billion and sales paybacks around RMB8.4 billion. The average sales absorption rate for these projects was approximately 80%. However, the Company mainly relies on external financing for the construction of commercial housing, and the local government is less likely to provide direct support for these activities. This may expose the Company to certain business risks. At the same time, the Company had 4 property projects under construction, with a total investment amount of RMB8.8 billion and an uninvested amount of RMB2.7 billion. The Company had received RMB4.0 billion of sales paybacks from these projects as of the same date. Considering its current and future investment in property development for commercial housing construction, the Company may face certain capital expenditure burden. Moreover, under the recent downturn and weak sentiment of housing market, the Company may face more operating uncertainties and destocking pressure.

Financial Profile

Relatively stable revenue scale and profitability along with low yield on asset

Given its dominance in public utility services within Jining City and its relatively large scale of ongoing engineering construction and property development projects, SDPH's revenue scale and profitability remained relatively stable over the past three years. The Company's recorded a total revenue of RMB15.7 billion in 2024, which slightly increased from RMB15.0 billion in 2023. Engineering construction business is the most significant contributor to SDPH's revenue, contributing 31.0% of total revenue in 2024, followed by public utility services (25.5%), property development (15.8%), and wholesale and retail business (11.7%).

SDPH's profitability remained at a moderate level over the same period, as reflected by its EBIT margin. The Company's EBIT margin decreased from 13.2% in 2023 to 11.7% in 2024, mainly driven by the declining margin for property development business. However, the Company's asset yield is relatively low as indicated by its 2.7% averaged return on asset over the period from 2022 to 2024. Considering the Company's diversified business portfolio and continuous operation, we expect the Company's revenue to remain stable over the next 12 to 18 months. However, its profitability is expected to remain at moderate level.

Increasing debt burden along with weak debt serving capability

SDPH's total debt increased over the past two years as a result of its increasing investment on the ongoing construction projects in its pipeline. As of 31 March 2025, the Company's total debt increased to RMB39.1 billion from RMB33.3 billion as of end-2023, while its capitalization ratio (total debt to total capital) decreased to 63.8% from 65.1% over the same period mainly due to the increase in equity.

In addition, SDPH's debt servicing capability is relatively weak as reflected by its weak debt serving metrics. The Company's total debt/EBITDA ratio was 12.9x in 2024, which indicates a relatively high debt leverage level. Moreover, its EBITDA interest coverage ratio was only around 1.7x over the past three years. These metrics

reflect the Company's relatively weak debt repayment capability. Given the Company's large capital expenditure pressure on the real estate development and construction projects, we expect the Company's debt level will gradually increase over the next 12-18 months.

Modest liquidity position and diversified funding channel

SDPH has a modest liquidity position. The Company faces certain refinancing pressure considering its relatively high level of short-term debt. As of 31 March 2025, the Company's short-term debt accounted for 34.9% of its total debt and the cash to short-term debt ratio was relatively low at 0.5x. Moreover, the Company's receivables accounts, inventories, construction in progress, and intangible assets together accounted for 59.8% of the total assets as of the same date. These assets mainly consist of project construction costs and franchising rights in public utility sector, which are considered as illiquid assets. Besides, the Company had some assets pledged for loans, which could undermine its financial flexibility. The pledged assets include cost of construction projects, cash, and investment properties, with a total amount of RMB9.3 billion and accounting for around 12.0% of total assets as of 31 December 2024.

SDPH's liquidity profile could be partially alleviated by its access to diversified financing channels. Bank loans are the main source of funding, which accounted for around 65.0% of the total debt as of 31 March 2025. As of 31 March 2025, SDPH has obtained standalone credit facilities of RMB28.7 billion, with an available amount of RMB6.2 billion. In terms of direct financing, the Company issued 13 tranches of onshore bonds from January 2024 to July 2025, raising RMB7.2 billion, with coupon rates range from 2.7% to 4.4%. Moreover, the Company had certain exposure on non-standard financing products, accounting for less than 5% of the total debts, which generally have high financing costs.

External Support

Very high likelihood of support from Jining Municipal Government

We expect a very high likelihood of government support from the Jining Municipal Government to SDPH in times of need. Our expectation incorporates the considerations of the Company's (1) ultimate control by the Jining SASAC; (2) regional importance in public utility services in Jining City; and (3) good track record of receiving ongoing government support from the Jining Municipal Government, including capital injection, equity transfers and financial subsidies.

Jining City is located in the southern part of Shandong Province, which is one of the core cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Thanks to its diversified industrial structure such as coal mining, machinery and equipment manufacturing, paper and paper products, chemical industry goods, and textiles, Jining City's economic strength and fiscal strength steadily improved over the past three years. In 2024, it reported a GRP of RMB586.7 billion, representing a year-over-year ("YoY") growth of 5.8%. Its general budgetary revenue was recorded at RMB49.6 billion in 2024.

There are two main state-owned capital investment, construction and operation entities in Jining City under the control of the Jining SASAC, which are Jining City Investment Holding Group Co., Ltd. ("JIHG") and SPUI, respectively. Their responsibilities are well-defined with clear functional positioning. JIHG is positioned as an infrastructure investment and construction entity in Jining City, mainly focusing on infrastructure construction, property development, and airport operation. While SPUI is positioned as an industrial investment, public utility service and engineering construction and operation entity in Jining City, and SDPH is the core subsidiary of SPUI.

The Jining Municipal Government maintains a high degree of control over SDPH's operations through SPUI, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to Jining SASAC. SDPH received good support from the Jining Municipal Government, given its regional importance in urban operation in Jining City. From 2023 to 2024, the Company received operating subsidies from the local government with a total amount of RMB474.1 million, supporting its operations. In terms of project funding, the Company received government special bond funding of RMB673 million in 2024, supporting its major construction projects and public utility businesses. Moreover, Jining SASAC has converted around RMB2.1 billion of the Company's government special bonds funding to capital reserve in 2024, enhancing the capital strength of the Company. The Company also received cash injection of RMB100 million to its paid-in capital from Jining SASAC.

Overall, given SDPH's regional importance in Jining City, we believe the local government will continue to support the Company in the form of financial subsidies, capital injections, or asset injections.

ESG Considerations

SDPH faces environmental risks because it has undertaken engineering construction in Jining City. 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.

As a public services provider in Jining City, the Company also faces social risks. Demographic changes, public awareness and social priorities shape government's target for SDPH, or affect the government's propensity to support the Company.

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

Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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