Credit Opinion

5 September 2025

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

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Yantai Chefoo Finance Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Yantai Chefoo Finance Holding Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Yantai Chefoo Finance Holding Group Co., Ltd. ("Yantai Chefoo" or the "Company") reflects Zhifu District Government's (1) 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 Zhifu District Government's capacity to 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 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, with high sustainability of public policy projects; (3) solid track record of receiving government support; and (4) good access to funding.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) relatively fast debt growth with relatively large capital expenditure pressure; and (3) moderate asset liquidity.

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.

Rating Drivers

- Strategic importance in the regional development of Zhifu District
- Medium exposure to commercial activities
- Solid track record of receiving government support
- Good access to funding
- Relatively fast debt growth and moderate asset liquidity

Rating Sensitivities

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.

Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	35.2	39.7	45.9	48.0
Total Equity (RMB billion)	21.1	21.4	21.7	21.8
Total Revenue (RMB billion)	1.6	1.4	1.6	0.5
Total Debt/Total Capital (%)	37.9	44.5	51.1	52.8

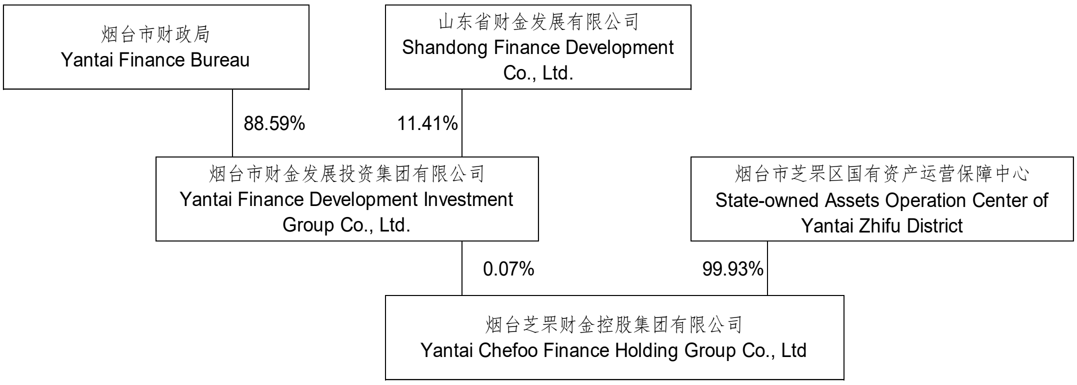
All ratios and figures are calculated using CCXAP’s adjustments.

Source: Company Information, CCXAP research

Corporate Profile

Founded in June 2017, Yantai Chefoo is the most important local infrastructure investment and financing company (“LIIFC”) in Zhifu District, Yantai City, Shandong Province. The Company is the largest state-owned enterprise by asset size and primarily responsible for land consolidation, urban renewal, infrastructure construction, and operation of state-owned assets in Zhifu District. Apart from public development projects, the Company engages in some commercial activities such as property leasing and sales, and trading business. As of 31 March 2025, the Company was 99.93% owned by the State-owned Assets Operation Center of Yantai Zhifu District and 0.07% owned by Yantai Finance Development Investment Group Co., Ltd. The Zhifu District Government was the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 31 March 2025



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

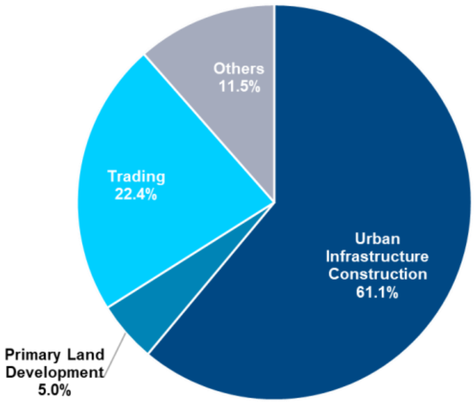
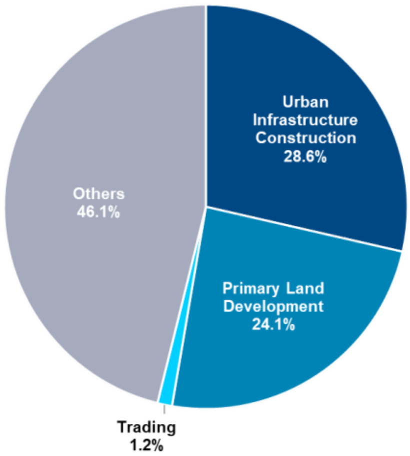


Exhibit 3. Gross profit structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Zhifu District Government has a strong capacity to provide support given its sound economic fundamentals and fiscal strength, such as high fiscal balance ratio and manageable debt burden.

Shandong Province is the third largest province in China by gross regional products ("GRP") over the past three years, with a solid foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive, and agri-food. Yantai City is located in the middle of the Shandong Peninsula and has focused on 16 key industrial chains, including petrochemicals and new chemical materials, biomedicine, clean energy, advanced gold processing, aerospace, marine engineering, and automobiles. Yantai City's economy is relatively strong, with the third-highest GRP among the prefectural level in Shandong Province over the past three years. In 2024, Yantai City reported a GRP of RMB1.1 trillion, increased by 6.1% year-over-year ("YoY"). In the first half of 2025, its GRP increased by 6.4% YoY to RMB537.5 billion, ranking first in Shandong Province in terms of growth rate. In addition, its general budgetary revenue increased to RMB69.9 billion in 2024 from RMB67.4 billion in 2023, ranking third among prefecture-level cities in Shandong Province. Yantai City's fiscal balance was moderate. In the past three years, its general budgetary revenue covered over 69.7% of its general budgetary expenditure, and tax income accounted for 66.1% of its general budgetary revenue on average. As of 31 December 2024, Yantai Municipal Government reported an outstanding government debt of RMB251.2 billion and accounted for 23.3% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Yantai City

	2022FY	2023FY	2024FY
GRP (RMB billion)	951.6	1,016.2	1,078.3
GRP Growth (%)	5.1	6.6	6.1
General Budgetary Revenue (RMB billion)	63.5	67.4	69.9
General Budgetary Expenditure (RMB billion)	92.3	95.3	100.5
Local Government Debt (RMB billion)	181.6	209.9	251.2

Source: Yantai Municipal Government, CCXAP research

Zhifu District is the economic and cultural center of Yantai City, focusing on the development of the pillar industries such as information technology and intelligent manufacturing, culture tourism, finance and commerce. With the ongoing economic growth, Zhifu District has strong fiscal strength. In 2024, the GRP of Zhifu District rose by 6.2% YoY to RMB137.8 billion, ranking third among 11 districts/counties in Yantai City. In the first half of 2025, Zhifu District has achieved GRP of RMB71.2 billion, representing a 4.7% YoY increase. It has a very healthy fiscal profile, with an average tax revenue/general budgetary revenue ratio of 62.7% and a high average fiscal balance ratio (general budgetary revenue/general budgetary expenses) of 140.2% over the past three years, indicating strong fiscal self-sufficiency. Zhifu District Government also had a relatively low debt burden, with outstanding government debt of RMB11.8 billion at end-2024, accounting for 8.5% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Zhifu District

	2022FY	2023FY	2024FY
GRP (RMB billion)	117.3	130.1	137.8
GRP Growth (%)	5.0	6.1	6.2
General Budgetary Revenue (RMB billion)	7.4	7.8	8.1
General Budgetary Expenditure (RMB billion)	5.5	5.5	5.6
Local Government Debt (RMB billion)	8.9	10.2	11.8

Source: Zhifu District Government, CCXAP research

Started in 2019, Happiness City project is the largest urban renewal project in Yantai City and Zhifu District, located in the downtown area of Yantai City. This project is divided into three construction stages including starting area, advancing area, and expanding area, respectively. Moreover, this key project with two-level government cooperation plays an important role in upgrading of industrial structure and conversion of old and new kinetic energy in Yantai City, which is expected to support the social and economic development in Zhifu District in the foreseeable future.

Government's Willingness to Provide Support

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 LIIFC commissioned by the Zhifu District Government to undertake land consolidation, urban renewal, infrastructure construction, resettlement housing construction and sales, as well as state-owned asset operations. Most importantly, the Company is the exclusive developer of the Happiness City project. Upon completion, Happiness City will become a hub engine for Yantai's westward development and a model for the transformation of new and old kinetic energy in Shandong Province.

Yantai Chefoo serves as the principal entity undertaking urban renewal projects in Zhifu District, including the area of Happiness City, west of Huanhai Road, and Jinglun Street District. Based on the entrustment agreement, the Company is responsible for raising the funds for demolition and land development. Upon the land sales, the local government would pay the cost of land development plus a certain percentage of markup, generally 15%. As of 31 March 2025, the Company had completed land consolidation of 8,000 mu and ongoing land consolidation of 5,800 mu, mainly in the Happiness City area, with a total estimated project investment of RMB9.5 billion and an invested amount of RMB8.9 billion for demolition, land consolidation, and related expenses. Moreover, the Company received RMB614.0 million of government paybacks from these land consolidation projects as of 31 March 2025. However, the land transfer process is largely susceptible to the local land market and government policies, which may also exert higher volatility during the downturn of China's property market. No land was transferred in Happiness City in 2023. From January 2024 to March 2025, there were 6 plots of land transferred in Happiness City, with a total area of 499.0 mu and total transfer price of RMB973.0 million.

Besides, Yantai Chefoo had one urban renewal project under planning, namely the Huanhai Road project, with a total planned investment of RMB3.0 billion. The cost of this project is self-funded, mainly from bank loans, and the Company is expected to achieve fund balancing through operating income such as the sales and leasing of properties, property management fees, cultural and tourism ticket fees, as well as parking and charging fees. However, these largely depend on the local economic conditions and development. Overall, the Company's urban renewal initiative involves large-scale investments and long investment period, which may result in greater uncertainty in fund balancing.

Yantai Chefoo also conducts urban infrastructure construction under the agency construction model, mainly in the Happiness City area. The Company signs an entrustment agreement with the local government or related state-owned enterprises, engaging in the construction of urban infrastructure projects that align with its urban renewal business, such as roads, industrial parks, public service facilities, and schools. Usually, the project payment will be settled within 3 years after the project completion. As of 31 March 2025, Yantai Chefoo had 13 key infrastructure construction projects under construction, with a total investment amount of RMB3.9 billion and an uninvested amount of RMB1.3 billion. These projects have received RMB2.2 billion of paybacks from the local government. Meanwhile, there are 5 proposed projects under planning, with a total planned investment of RMB2.5 billion. All the construction costs of infrastructure construction projects are funded by self-raised funds, which will exert certain capital expenditure pressure on the Company in the upcoming years.

The Company conducts resettlement housing construction and sales through its subsidiary, Yantai Longhai Real Estate Co., Ltd. ("LHRE"), which was transferred by Zhifu District Government in 2022. LHRE is in charge of fundraising for the construction of Longhai Jiayuan Community project, the resettlement part of which would be purchased by the local government after the project is completed. As of 31 March 2025, the total investment amount of this project was RMB718.5 million, realizing income of RMB695.0 million but receiving payments of RMB358.0 million, indicating relatively slow payment collection progress. From January 2024 to March 2025, the Company did not record any resettlement housing sales. As of 31 March 2025, the remaining sales area of resettlement part of Longhai Jiayuan Community project was 58.9 thousand square meters, which will be sold in accordance with the government's resettlement plan.

Yantai Chefoo's public attributes remain stable, given its dominant role in the development of the Happiness City project and other large-scale urban renewal projects. 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. While the pipeline of large-scale public policy projects supports the sustainability of its business, it also places greater pressure on the Company's capital expenditure, and the payment collection period is long.

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 2025, 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.

The Company participates in the sale and leasing of properties, primarily comprising the non-resettlement part of Longhai Jiayuan Community project transferred by the local government. We consider its business risk to be relatively low, as the investment for construction is completed and will not incur any large capital spending. Yantai Chefoo plans to sell or lease properties, shops, office buildings, agricultural market stalls, underground sheds, as well as parking spaces in the project. However, the Company did not recognize any revenue from property sales in 2024. As of 31 March 2025, the sale-through rate of this project was only 29.8%, indicating relatively large destocking pressure. At the same, the Company had no property development projects under construction or planning. Meanwhile, the Company also engages in the leasing of commercial and residential properties in Zhifu District, which currently has a moderate occupancy rate of 52.8%, providing the Company with supplementary recurring income. However, the leasing business may be affected by the local operating environment and development.

Yantai Chefoo's trading business mainly includes the sales of building materials, decorative materials and non-ferrous metals. The Company's trading business operates under a sales-driven procurement model, in which the upstream and downstream clients as well as the product prices are locked in advance to control operational risks. The expanding scope of non-ferrous metals and building materials trading business led to an increase in revenue scale, but the gross margin declined due to compressed margins on building materials. The revenue from trading increased from RMB327.4 million in 2023 to RMB359.0 million in 2024, yet the gross margin remained relatively low at around 1.1% in 2024. Moreover, this segment is exposed to certain concentration risk, as its procurement from the top 5 suppliers accounted for 52.2% of total procurement and sales from the top 5 customers accounted for 58.1% of total sales in 2024.

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. Since its establishment, the local government has injected various assets into the Company, including operational resources such as investment properties and sandstone resources, which strengthened the Company's capital strength and broadened its business scope. In 2024, the Company's capital reserve increased by RMB51.0 million, mainly owing to the injection of investment properties from the local government. The local government also provided asset injections of RMB1.2 million to the Company in the first quarter of 2025. From 2024 to 2025Q1, the Company continued to receive total government subsidies of RMB415.0 million, supporting its operation. During the same period, the Company totally received government payments of around RMB1.1 billion for the infrastructure construction, land consolidation, and leasing businesses. The Company is expected to receive more paybacks from the local government upon projects completion. 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.

Relatively fast debt growth and moderate asset liquidity

Due to the ongoing investment in Happiness City project and urban infrastructure construction projects, Yantai Chefoo demonstrated relatively fast debt growth during the past three years. The Company's total debt increased from RMB17.2 billion by the end of 2023 to RMB24.3 billion as of 31 March 2025, while its total capitalization ratio (total debt/total capital) rose from 44.5% to 52.8%. The Company's short-term debt repayment pressure is manageable, with short-term debt accounted for 21.4% of the total debt and cash to short-term debt ratio of around 1.0x at the end of March 2025. 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. However, we expect the Company's liquidity risk to be manageable, given the recurring payments from the local government and its strong access to diverse funding channels.

Moreover, Yantai Chefoo's asset liquidity remained moderate. As of the end of March 2025, other non-current assets, inventories, investment properties and intangible assets accounted for around 73.3% of its total assets. The other non-current assets are mainly the investment in the land consolidation of Happiness City project, while the inventories are mainly the Longhai Jiayuan Community project transferred by local government and land. At the same time, the investment properties are mainly the state-owned operating properties injected by the local government, while the intangible assets are mainly sand resources and land use rights. All these assets are considered to have low liquidity, as they are relatively difficult to convert into cash and less accessible for quick cash needs, which may undermine the Company's financial flexibility in the future.

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. The Company's important strategic position in Zhifu District is well-recognized by large state-owned commercial banks and national joint-stock commercial banks in China, including EverGrowing Bank Co., Limited, Postal Savings Bank of China Co., Ltd., and Bank of China Limited. As of 31 March 2025, Yantai Chefoo obtained total credit facilities of RMB54.5 billion, with an undrawn amount of RMB37.1 billion, indicating sufficient standby liquidity. Meanwhile, the Company had moderate exposure to non-standard financing products (mainly trusts and financial leasing), with a proportion of total debt of around 17.1%. In addition, the Company has access into the domestic bond market. From January 2024 to July 2025, it issued 4 tranches of bonds in the onshore market, raising RMB5.5 billion with low coupon rates ranging between 2.1% to 2.7%. As of 31 March 2025, the overall financing cost of the Company was 4.1%, while that of non-standard financing was approximately 5.7%.

ESG Considerations

Yantai Chefoo faces environmental risks because it has undertaken urban renewal and infrastructure construction projects. 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.

Yantai Chefoo bears social risks as it implements public policy initiatives by building public infrastructure in Zhifu District. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

Yantai Chefoo's governance considerations are also material as the Company is subject to oversight by the Zhifu District 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 China's Local Infrastructure Investment and Financing Companies (July 2022).

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