

Credit Opinion

30 April 2024

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

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Qingdao Bullet Train Town Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Qingdao Bullet Train Town Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g+

 long-term credit rating of Qingdao Bullet Train Town Investment Group Co., Ltd. (“QBTI” or the “Company”) reflects Chengyang 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 Chengyang District Government’s capacity to support reflects Chengyang District’s status as one of the top three largest districts by general budgetary revenue in Qingdao City for the last three years, with relatively good economic fundamentals and fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important position in infrastructure construction in Chengyang District, particularly in the Qingdao Rail Transit Industry Demonstration Zone (“QRTIDZ”); and (2) solid track record of receiving government support.

However, the Company’s rating is constrained by its (1) high exposure to commercial activities with relatively large future investment needs; (2) increasing debt burden with moderate asset liquidity; and (3) medium exposure to contingent liabilities.

The stable outlook on QBTI’s rating reflects our expectation that the Chengyang District Government’s capacity to provide support will be stable, and the Company will maintain its important role in local infrastructure construction in Chengyang District over the next 12 to 18 months.

Rating Drivers

- Important position in infrastructure construction in Chengyang District, particularly in the QRTIDZ
- Solid track record of receiving government support
- High exposure to commercial activities with relatively large future investment needs
- Increasing debt burden with moderate asset liquidity
- Access to diversified funding channels
- Medium exposure to contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Chengyang 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 materially reduced exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Chengyang 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, or deteriorated access to fundings.

Key Indicators

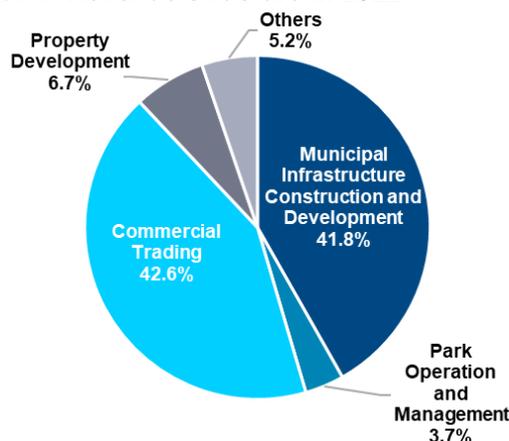
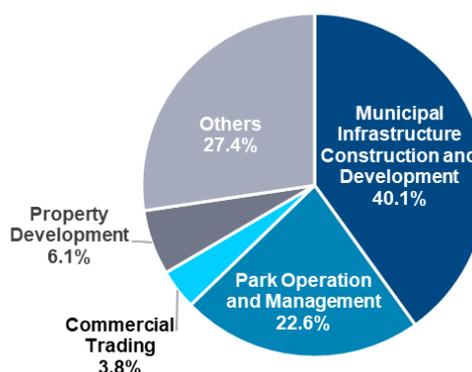
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	19.9	28.0	39.7	46.0
Total Equity (RMB billion)	9.6	11.7	15.2	15.3
Total Revenue (RMB billion)	0.9	2.3	2.4	2.1
Total Debt/Total Capital (%)	46.7	52.7	57.1	62.0

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

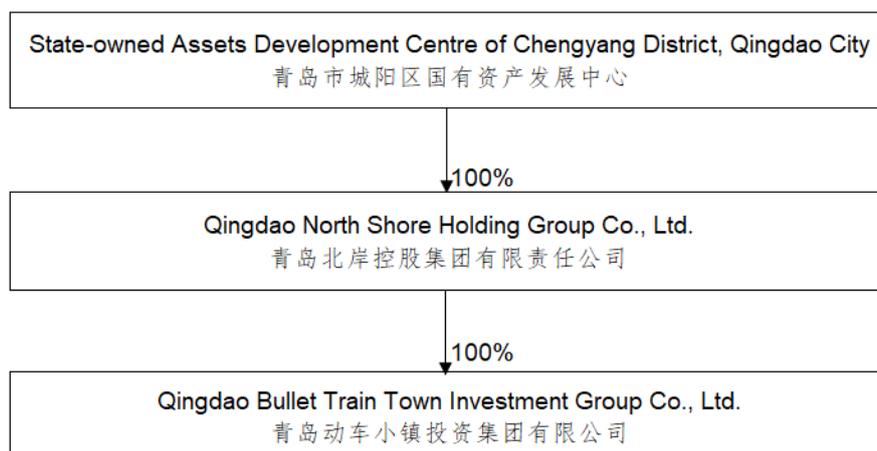
Source: Company data, CCXAP research

Corporate Profile

Established in March 2017, QBTI is an important local infrastructure investment and financing company ("LIIFC") in Chengyang District. As a key state-owned platform for the construction, operation, and management of park infrastructure in Chengyang District, particularly in the QRTIDZ, the Company has actively participated in a number of municipal infrastructure construction and development projects, as well as major park infrastructure projects in the QRTIDZ in Chengyang District. It also undertakes diversified commercial activities, such as property development, park operation and management, and commercial trading. As of 30 September 2023, the Company was indirectly and wholly owned by the State-owned Assets Development Centre of Chengyang District through Qingdao North Shore Holding Group Co., Ltd. ("QNSG"), which is a key LIIFC in Chengyang District.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 September 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Chengyang District Government has very strong capacity to provide support, reflects Chengyang District's status as one of the top three largest districts by general budgetary revenue in Qingdao City for the last three years, with relatively good economic fundamentals and fiscal profile.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported GRP of RMB1,576.0 billion in 2023, ranking first in Shandong Province and 13th among China's municipalities. Qingdao City also has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70% of its general budgetary expenditure, and tax incomes accounted for more than 70% of its general budgetary revenue on average. As of end-2023, its government's debt/GRP was 23.0%.

Exhibit 4. Key economic and fiscal indicators of Qingdao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,413.6	1,492.1	1,576.0
GRP Growth (%)	8.3	3.9	5.9
General Budgetary Revenue (RMB billion)	136.8	127.3	133.8
General Budgetary Expenditure (RMB billion)	170.7	169.6	171.9
Local Government Debt (RMB billion)	255.9	308.0	362.0

Source: Qingdao Municipal Government, CCXAP research

Chengyang District is located on the north coast of Qingdao, with well-developed high-speed and railroad networks, providing convenient access to the downtown of Qingdao and other major transportation hubs. It focuses on several industries, including high-end equipment, new-generation information technology, new energy and new materials, as well as biomedicine industries. Chengyang District's GRP has been ranking top 5 among all the districts or counties in Qingdao City over the past three years. The GRP of Chengyang District increased by 5.3% Year-on-Year to RMB139.7 billion in 2023. Moreover, from 2021 to 2023, the general budgetary revenue of Chengyang District has been ranking top 3 in Qingdao City, and was recorded at RMB11.6 billion in 2023. Chengyang District had a strong fiscal balance as its general budgetary revenue covered over 100% of its general budgetary expenditure for the past three years. It also has a good fiscal stability with tax income contributing around 70% of the general budgetary revenue over the same period. As of end-2023, the outstanding amount of local government debt amounted to RMB41.5 billion, accounting for 29.7% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Chengyang District

	2021FY	2022FY	2023FY
GRP (RMB billion)	133.4	134.8	139.7
GRP Growth (%)	4.0	1.1	5.3
General Budgetary Revenue (RMB billion)	13.3	11.5	11.6
General Budgetary Expenditure (RMB billion)	11.3	10.3	9.8
Local Government Debt (RMB billion)	25.6	34.1	41.5

Source: Chengyang District Government, CCXAP research

Chengyang District has recently developed QRTIDZ, focusing on the development of rail transit industry. QRTIDZ was established in November 2018, with a planned area of 83.02 square kilometers and a current population of 110 thousand. It was selected as the first batch of the national strategic emerging industrial clusters and awarded as one of the top ten characteristic industrial clusters in Shandong Province. It is the only industrial cluster in China that integrates the production of complete high-speed rail and metro vehicles, R&D and manufacturing of core rail transit systems, and a national collaborative innovation platform for basic applied technologies. Many leading enterprises in rail transit equipment industry have settled in QRTIDZ, such as CRRC Qingdao Sifang Co., Ltd. and Bombardier Sifang (Qingdao) Transportation Ltd. The QRTIDZ will also support the development of rail transit industry in Chengyang District.

Government's Willingness to Provide Support**Important position in infrastructure construction in Chengyang District, particularly in the QRTIDZ**

There are three major LIIFCs in Chengyang District, each of them is responsible for infrastructure construction in different areas in Chengyang District. QNSG is a key LIIFC in Chengyang District, which was established at the end of 2022 as part of the consolidation of state-owned enterprises in Chengyang District. QNSG is mainly

engaged in infrastructure construction and park operation in QRTIDZ and Jiaozhou Bay Comprehensive Bonded Area. As a major subsidiary of QNSG, QBTI is mainly responsible for municipal infrastructure construction and development in QRTIDZ and Shangma Street. The Company is designated to carry out a variety of park infrastructure and supporting facilities construction projects ranging from shantytown renovation projects, road, public utility construction projects, and park facilities construction within QRTIDZ. The Company undertakes projects construction under the agency construction model and receives project repayments based on the total cost plus a few percentage markups in return during the construction progress. As at 30 September 2023, the Company had completed one major projects with a total investment of approximately RMB108 million. The Company also had 16 major projects under construction and 2 projects under planning, with a total investment of RMB20.5 billion and an outstanding amount of RMB7.2 billion. Sufficient project reserves ensure the sustainability of the Company's business, but also bring certain capital expenditure pressure to the Company.

Solid track record of receiving government support

QBTI has a good track record of receiving support from the local government in the form of project payments, asset injections, and operating subsidies to support its investments and the operation of its businesses. From 2020 to 2023Q3, the Company received government subsidies with a total amount of around RMB966 million. QBTI also received capital injection from the local government. From 2020 to 2023Q3, the government injected cash of RMB98.6 million to the Company, increasing its paid-in capital. Apart from that, the Company also received funding allocation and asset transfer from the local government, with a total amount of RMB9.0 billion, increasing the Company's capital strength. We expect the Company will continue to receive government support over the next 12 to 18 months, given its important policy role in Chengyang District and the large number of public policy projects under construction.

High exposure to commercial activities with relatively large future investment needs

The Company participates in different commercial businesses, including industrial park operation and management, commercial trading, and property development. These commercial activities can contribute part of the Company's revenue, but also entail higher operational and business risks than its public activities. At the same time, the Company's large number of self-built projects will exert higher investment pressure to the Company. We consider QBTI's commercial business exposure high, which accounted for more than 30% of its total assets by our estimation.

The Company's industrial park operation and management business primarily involves the construction, operation and management of standard factories, research laboratories, and major park facilities in QRTIDZ. The Company also undertakes the construction of supporting facilities such as roads, water pipelines, as well as telecommunications in accordance with the overall planning of QRTIDZ. QBTI acquired these properties through outside purchase and self-construction, and is expected to generate income through sales, leasing and management fees. As of 30 September 2023, the Company owned leasable assets with total leasable area of around 530 thousand square meters and a comprehensive occupancy rate of around 80%. Meanwhile, there were 12 projects and 2 projects under construction and planning respectively, with an estimated total investment of around RMB22.0 billion and an uninvested amount of RMB19.3 billion. These leasing assets would be lease to government institutions and enterprises attracted to settle in QRTIDZ. Although the Company's leasing income has continued to grow over the past three years, the gross profit margin has fluctuated due to the impact of the economic environment in recent years. In addition, the large future investment will exert higher capital expenditure and financial pressure to the Company.

QBTI is also engaged in the property development business, focusing on the sales of residential property projects. As of 30 September 2023, the Company had a completed property project, with a total investment of RMB983 million and only half of the properties were sold. Meanwhile, the Company had 3 key property projects under construction, with a total investment of RMB2.2 billion and an uninvested amount of RMB1.7 billion. However, during the downturn of China's property market, the fund balancing may suffer from high volatility due to the uncertainty of construction and sales progress.

Additionally, QBTI is also involved in commodity sales business, including electrolytic copper, rubber, steel, and ethylene glycol. The Company mainly adopts demand-on-purchase mode, and receives certain percentage of prepayments from downstream customers before procurement. The commodity sales business represents a relatively large portion of its revenue stream but generates a minimal profit margin. Moreover, the Company is also exposed to customer and supplier concentration risks, which may lead to lower pricing and bargaining power of the Company. In 2022, the top five suppliers and customers accounted for more than 80% and 65% of the total procurement and total sales, respectively.

Increasing debt burden with moderate asset liquidity

Due to the ongoing financing for its infrastructure construction and industrial park projects in recent years, QBTI demonstrates a rapid debt growth. As of 30 September 2023, QBTI's total debt increased to RMB24.1 billion from RMB8.4 billion as of end-2020. Meanwhile, the Company has a relatively high debt leverage and its total capitalization ratio increased to 62.0% from 46.7% over the same period. The Company's short-term debt accounted for 36.1% of total debt as of 30 September 2023, indicating relatively high short-term debt pressure. Meanwhile, the cash to short-term debt ratio was 0.3x, which could not fully cover its short-term debt. We estimate that the Company would continue to rely on external financing such as bank loans and bonds issuance to support its further development, while its total capitalization ratio would remain relatively high over the next 12-18 months.

In addition, the liquidity of the Company's assets was relatively weak. As of 30 September 2023, inventories, accounts receivable, other receivables, and construction in progress accounted for approximately 65% of total assets. The inventories and construction in progress are mainly cost of infrastructure construction, property development, and self-construction projects, which were considered low liquidity. The low asset liquidity may undermine the Company's financial flexibility. Apart from that, other receivables contain loans provided to a private-owned enterprise, namely Qingdao Saixin Ruixiang Real Estate Co., Ltd. ("Saixin Ruixiang"), whose ultimate controller has been listed as a dishonest judgement debtor. As of 30 September 2023, the Company had receivables from this enterprise with a total amount of around RMB511 million, which may expose the Company to certain recovery risk.

Access to diversified funding channels

QBTI has access to diversified funding such as bank loans, domestic and offshore bond financing, and non-standard financing. The Company maintains long-term close relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks, such as China Development Bank, Industrial and Commercial Bank of China Ltd. and Bank of Qingdao Co., Ltd., providing sufficient standby liquidity. As of 30 September 2023, the Company had total bank facilities of RMB18.9 billion, with the available portion being RMB6.2 billion.

The Company also actively participates in the debt capital markets, including domestic and offshore bond markets. From January 2023 to March 2024, the Company issued 5 tranches of domestic bonds, raising around

RMB4.1 billion. The Company also issued 2 tranches of offshore bonds in 2022, raising RMB400 million and USD60 million. However, the Company has a certain exposure to non-standard financing, which accounts for around 15%-20% of its total debt, mainly from financial leasing companies. Non-standard financing products generally have higher financing costs and shorter maturities, which could increase the Company's refinancing pressure.

Medium exposure to contingent liabilities

QBTI's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the Company had outstanding external guarantees of RMB4.5 billion, representing 29.5% of its net assets. Most of them were provided to local state-owned enterprises, mainly were mutual guarantees between local state-owned enterprises in Chengyang District. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. Moreover, RMB52.8 million of external guarantees were provided to Saixin Ruixiang, which may also expose the Company to certain contingent liability risks. We consider QBTI's contingent liabilities risks to be medium as there is no clear mechanism for the Company to be adequately compensated if these entities fail to repay.

ESG Considerations

QBTI bears environmental risks through its infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

QBTI bears social risks as it implements public policy initiatives by building public infrastructure in Chengyang 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.

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

Structural Considerations

QBTI's senior unsecured debt rating is in equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in infrastructure construction in Chengyang District, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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