

CCXAP assigns first-time long-term credit rating of BBB_g- to Linyi Lanshan District Finance Investment Group Co., Ltd., with stable outlook.

Hong Kong, 26 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Linyi Lanshan District Finance Investment Group Co., Ltd. (“LSFI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of LSFI reflects Lanshan District Government’s (1) strong capacity to provide support, and (2) high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Lanshan District Government’s capacity to support reflects Lanshan District’s status as the largest county-level district in Linyi City in terms of gross regional products. It has strong economic conditions, good fiscal metrics and debt profile.

The rating also reflects high willingness to support, which is based on the Company’s (1) full ownership and ultimate control by the Lanshan District Government; (2) strong strategic role in the economic and industrial development in Lanshan District; and (3) track record of receiving government supports. However, the Company’s rating is constrained by (1) higher business risk related to property and financial service segments; (2) increasing exposure to commercial activities exerts pressure on capital expenditure; and (3) unbalanced debt structure and concentrated financing channels.

Corporate Profile

Founded in April 2018, LSFI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Lanshan District, Linyi City, Shandong Province. It is also the key local state-owned enterprise that undertakes the role of infrastructure construction and operation of state-owned assets in Lanshan District. In addition, the Company is engaged in commercial activities including the development and operation of industrial parks, fire equipment and salt sales, fund investments, and provision of financial services such as on-lending and guaranteed businesses. As of 31 March 2022, the Company was directly and wholly owned by the State-owned Assets Management Service Center of Lanshan District and the Lanshan District Government was the ultimate controller.

Rating Rationale

Credit Strengths

Strong strategic role in the economic and industrial development in Lanshan District.

LSFI is one of the major LIIFCs in Lanshan District that undertakes local infrastructure construction, state-owned asset operations and local industrial investments. The Company is the second largest LIIFC in Lanshan District by total assets. We believe that the importance of LSFI to the Lanshan District Government will remain high because the cost of replacing its functional role is high and it still has strong political and financial implications for the region.

Track record of receiving government payments. LSFI has a good record of receiving recurring support from the Lanshan District Government, including operating subsidies, capital and asset injections, and payments for infrastructure construction projects, which could help the Company meet its policy objectives and financial obligations. Since its establishment, the local government has injected operational assets and several land resources into the Company. Moreover, the local government has provided different types of operating subsidies for more than RMB300 million over the past three years.

Credit Challenges

Higher business risk related to property and financial service segments. The Company's commercial business includes the development and operation of industrial parks, fund investments, sales of fire equipment and salts, and the provision of financial services such as on-lending and guaranteed businesses. The increasing investments in commercial activities will inevitably expose the Company to higher business and financial risks.

Rising exposure to commercial activities which exerts pressure on capital expenditures. LSFI has a large investment plan in its commercial activities, especially in the investment of local industrial parks, which will exert certain capital pressure. We believe that the Company's expansion will be mainly funded by external debts as it is more difficult to obtain the government's direct financial support for its commercial activities.

Unbalanced debt structure and concentrated financing channels. LSFI has an increasing debt burden from continuous expansion, with an unbalanced debt structure. The Company has relatively limited financing channels and still has no record of bond issuances for the time being, while it is planning to tap the debt capital market in the near future.

Rating Outlook

The stable outlook on LSFI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its strong strategic role in the economic and industrial development in Lanshan District, will remain largely unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Lanshan District's economic prospects and fiscal performance improve and its ability to support the Company increases; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and increases its public policy status.

What could downgrade the rating?

The rating could be downgraded if (1) Lanshan District's economic prospects and fiscal performance deteriorate, reducing its capacity to support the Company; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support,



such as reduced strategic significance, weakened funding ability, or decreased government payments.

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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http://www.ccxap.com/en/rating_services/category/6/

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Vincent Tong
Assistant Director of Credit Rating
+852-2860 7125
vincent_tong@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656