

CCXAP assigns first-time long-term credit rating of BBB_g to Jinan Lixia Holding Group Co., Ltd., with stable outlook.

Hong Kong, 1 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g long-term credit rating to Jinan Lixia Holding Group Co., Ltd. (“Lixia Holding” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of Lixia Holding reflects Lixia District Government’s (1) very strong capacity to provide support, and (2) high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Lixia District Government’s capacity to support reflects its vital role as first ranking among districts or counties in Jinan City, with good economic fundamentals and fiscal strengths such as large operating fiscal surplus.

The rating also reflects high willingness to support, which is based on the Company’s (1) important position as the largest entity focusing on infrastructure construction and primary land development in Lixia District; (2) solid track record of receiving government payments; and (3) good access to diversified funding channels. However, the Company’s rating is constrained by (1) high exposure to commercial activities which exerts pressure on capital expenditures; (2) fast debt growth and high debt burden; and (3) relatively weak liquidity profile.

Corporate Profile

Established in 2016, Lixia Holding is the largest and the most important local infrastructure investment and financing company in Lixia District, primarily undertaking municipal projects such as infrastructure construction and primary land development in Lixia District. Moreover, the Company is engaged in commercial activities including CBD development, industrial park construction and property leasing. Lixia Holding has developed into an essential entity for the social and economic development of Lixia District. As of 30 June 2022, it was 90.01% owned by Lixia District Finance Bureau and under the direct administration of Lixia District Government.

Rating Rationale

Credit Strengths

Largest entity focusing on infrastructure construction and primary land development in Lixia District. Lixia Holding is an exclusive entity for various key infrastructure construction and primary land development projects, which are crucial to local social and economic development that benefits the general public and local employment. As the essential infrastructure construction entity in the district, Lixia Holding has important strategic significance for local social and economic development. We believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. Lixia Holding has a proven track record of receiving support from the local government in terms of capital injections, asset injections, and subsidies. The cash payments from the local government partly cover the financial requirements of its public-policy projects. We believe that, as the most important state-

owned enterprise in Lixia District, the Company plays an irreplaceable role in the development and operation of the district, the local government will provide strong support to the Company in times of need.

Good access to diversified funding channels. Lixia Holding shows good access to various sources of funding, including bank loans and onshore and offshore bond financing, which could partly meet its large investment needs. Considering the Company's important status as the irreplaceable platform for infrastructure construction and primary land development projects in Lixia District, we expect Lixia Holding to maintain good access to domestic bank loans and bond markets.

Credit Challenges

High exposure to commercial activities which exerts pressure on capital expenditures. Lixia Holding's commercial business exposure is high, accounting for more than 30% of its total assets, which has constrained its rating. The Company's commercial businesses mainly include CBD development and leasing of commercial properties. Considering the large expenditure needs of its commercial activities including the salable and leasable commercial properties under construction, we expect the Company's debt level to continue to grow over the next 12-18 months.

Fast debt growth and high debt burden, with relatively weak liquidity profile. Due to the continued financing for the construction projects, Lixia Holding's total debt has been growing rapidly over the past three years. In addition, Lixia Holding's asset liquidity is relatively weak, which may undermine the Company's financing flexibility.

Rating Outlook

The stable outlook on Lixia Holding's rating reflects our expectation that the Lixia District Government's capacity to provide support will be stable, and the Company's characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Lixia District Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially lowering exposure to risky commercial activities, or improving debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) Lixia District 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 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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