

CCXAP assigns first-time long-term credit rating of BBB_g+ to Yantai Chefoo Finance Holding Group Co., Ltd, with stable outlook.

Hong Kong, 30 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g+ long-term credit rating to Yantai Chefoo Finance Holding Group Co., Ltd (“Yantai Chefoo” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Yantai Chefoo 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; (3) solid government support through capital injections, asset transfers, and subsidies; and (4) good access to funding from banks and domestic bond market. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; and (2) relatively high debt growth due to large expenditure requirements in construction projects.

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 urban infrastructure construction, primary land development, and operation of state-owned assets in Zhifu District. Apart from public development projects, the Company engages in some commercial activities such as the construction and operation of industrial parks, property leasing, and trading business. As of 31 December 2021, 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., of which Zhifu District Government was the ultimate controller of the Company.

Rating Rationale

Credit Strengths

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 a key LIIFC commissioned by the Zhifu District Government to undertake major urban infrastructure construction, state-owned asset operations, and primary land development projects. Most importantly, the Company is the exclusive developer of the Happiness City project.

Solid government support through capital injections, asset transfers, and subsidies.

Yantai Chefoo has a solid track record of receiving support from the local government in terms of subsidies, asset transfers, and capital injections. Given its dominant position in the land development 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, in our view.

Good access to funding from banks and domestic bond market. Yantai Chefoo has good access to multiple financing channels and the primary sources of funding are bank loans and bond issuances, respectively. The Company's important strategic position in Zhifu District is well-recognized by national joint-stock commercial banks and urban commercial banks in China. As of 30 June 2022, Yantai Chefoo obtained total credit facilities of RMB20.2 billion and the available portion was RMB10.6 billion. In addition, the Company actively participates in domestic bond market, from January 2020 to July 2022, it issued 4 bonds in the domestic bond market totaling RMB6.0 billion, with reasonable coupon rates ranging from 3.5% to 3.99%.

Credit Challenges

Medium exposure to commercial activities. Yantai Chefoo is expanding to several commercial activities such as the construction and operation of industrial parks, property leasing, as well as trading business. Although the commercial assets accounted for a relatively large proportion of total assets at the end of 2021, we estimate the Company's risk exposure to commercial activities is manageable as the majority of the assets are properties as injected from the local government without upfront investment capital needs.

Relatively high debt growth due to large expenditure requirements in construction projects. Due to the ongoing investment in infrastructure construction and primary land development in the Happiness City project, Yantai Chefoo demonstrated relatively high debt growth during the past three years. Considering the ongoing investment in the Happiness City project and the funding gap between government payments and upfront investments, we believe there is a relatively high growth potential for the Company's debt level.

Rating Outlook

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 infrastructure construction and primary land development in Zhifu District, will remain largely unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zhifu District Government's capacity to support the Company 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.

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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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.

George Wang
Credit Analyst
+852-2860 7134
george_wang@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