

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

Hong Kong, 23 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Qingdao Shibe Construction Investment Group Co., Ltd. (“SBCI” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of SBCI reflects Shibe District Government’s strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shibe District Government’s capacity to provide support reflects Shibe District’s sound economic and fiscal strength, with a gross regional production (“GRP”) of over RMB100 billion.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy role as an urban operator of Shibe District; (2) good track record of receiving government support; and (3) good access to diversified funding sources. However, the Company’s rating is constrained by (1) medium exposure to commercial activities; and (2) high debt leverage level and weak asset liquidity.

Corporate Profile

Established in 2016, SBCI is the one of the primary local infrastructure investment and financing companies (“LIIFCs”) that focuses on urban operations and investment in Shibe District, Qingdao City. SBCI plays an important role in public activities in Shibe District, such as land consolidation and development, affordable housing and urban renewal projects. The Company also undertakes commercial activities such as property development, property leasing and trading. As of 30 June 2022, SBCI was directly wholly-owned and controlled by the State-owned Assets Operation and Development Center of Qingdao Shibe District.

Rating Rationale

Credit Strengths

Important policy role as an urban operator of Shibe District. SBCI is one of the major LIIFCs in Shibe District, focusing on urban investment and operations according to the government’s planning. It plays an important role in land consolidation, affordable housing, shantytown and urban renewal projects, and its government-related assets such as shantytown, land and affordable houses account for a relatively large proportion of the Company’s total assets.

Good track record of receiving government support. SBCI has a proven track record of receiving government support in various forms such as capital injection, financial subsidies, asset injections and government payment for construction projects. For example, in 2020, SBCI received around RMB602.8 million in cash as initial project capital to carry out the Historical Memory Cultural Area Project. Moreover, the total payment and annual payment for its public projects is visible as payment contracts were signed.

Good access to diversified funding sources. SBCI has good access to various sources of funding including banks and the bond market. The Company has maintained a good relationship with large domestic banks such as policy banks and joint-stock commercial banks. As of 30 June 2022, it had total credit facilities of approximately RMB29.1 billion with unutilized portion of around RMB5.5 billion, which were provided by diversified banks. Moreover, SBCI also has good access to debt capital market.

Credit Challenges

Medium exposure to commercial activities. SBCI engages in commercial activities such as commodity transaction, property development and property leasing. However, such activities may expose the Company to certain business risks and the local government seldom provide direct support for these activities. Based on our analysis, the Company is exposed to medium business risks, with commercial assets accounting for less than 30% of total assets.

High debt leverage level and weak asset liquidity. SBCI's debt leverage remains high due to its continuous investment in land consolidation and shantytown projects, as well as long government repayment periods. Its total capitalization ratio recorded a high level of 68.8% at mid-2022. As of 30 June 2022, its cash to short-term debt ratio was around 0.4x, indicating that its cash balance was insufficient to cover short-term debt. In addition, according to the contract, all rights and benefits from the 2017 Shantytown projects were pledged for the loan from the China Development Bank.

Rating Outlook

The stable outlook on SBCI's rating reflects our expectation that Shibe District Government's capacity to provide support will be stable; and the Company will maintain its important policy role as an urban operator in Shibe District over the next 12 to 18 months.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Shibe 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 a reduction in the importance of its policy role, weakened government payments, or a deterioration in its financing 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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