

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Rizhao Xinlanshan Caijin Investment Group Co., Ltd., with stable outlook**

Hong Kong, 25 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB<sub>g</sub>- to Rizhao Xinlanshan Caijin Investment Group Co., Ltd. (“RXCI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of RXCI reflects Lanshan District Government’s (1) relatively 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 Lanshan District Government’s relatively strong capacity to provide support reflects its vital role in Rizhao City, with good fiscal balance and debt profile.

The rating also reflects the local government’s extremely high willingness to provide support, which is based on the Company’s (1) essential role in industrial park construction and public welfare of Lanshan District; (2) solid track record of receiving government payments; and (3) reasonable debt level. However, the rating is constrained by the Company’s (1) limited access to funding; and (2) moderate asset liquidity.

### **Corporate Profile**

Founded in 2017, RXCI is an important local infrastructure investment and financing company (“LIIFC”) in Lanshan District, primarily responsible for the industrial park construction, shantytown projects and water supply. It is also engaged in commercial operations, including human resources service, material trading, property leasing and school bus service. In 2022, the local government consolidated the Company and other two LIIFCs in Lanshan District, and established Rizhao Xinglan Holdings Group Co., Ltd. (“Xinglan Holdings”). As of 30 September 2022, the Company was wholly owned by Xinglan Holdings, and was ultimately controlled by State-owned Assets Supervision and Administration Bureau of Lanshan District, Rizhao City (“Lanshan District SASAB”).

### **Rating Rationale**

#### **Credit Strengths**

#### **Essential role in industrial park construction and public welfare of Lanshan District.**

RXCI is entrusted by the local government to undertake key public policy projects, mainly including major industrial park construction and shantytown projects. It plays a clear strategic role in regional economic and social development by undertaking industrial park construction projects and providing public welfare services. As of 31 December 2021, the Company has completed a large amount of industrial park construction projects, with a total investment of RMB4.3 billion. We believe that the replacement cost for the Company is high as these public services are essential to the region.

**Solid track record of receiving government payments.** RXCI has a solid track record of receiving support from the local government in terms of capital injections, asset injections, and

government subsidies. Considering the strategic role of RXCI, we expect the Company will continue to receive support from the local government in the future.

**Reasonable debt level.** RXCI has a reasonable debt level, although its debt growth was relatively fast due to ongoing funding for construction projects. At end-2021, the Company's total debt amounted to RMB3.6 billion, with a reasonable total capitalization ratio of 32.7%. Considering the large capital expenditure needs for its construction projects, we expect the Company's debt level will moderately increase in the next 12 to 18 months.

### Credit Challenges

**Limited access to funding.** RXCI has limited access to funding as its refinancing channels are mainly bank loans and non-standard financing. As of end-2021, around 90% of the Company's debt financing was provided by domestic banks with total credit facilities of RMB4.0 billion, with the available portion being RMB810 million. Given the Company's limited available credit facilities amount, and large outstanding investment amount on its industrial park construction projects, we consider additional funding channel is needed to fulfil its large capital expenditure, such as onshore and offshore debt capital market.

**Moderate asset liquidity.** RXCI has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 93% of its total asset as of end-2021. Fortunately, the Company has a large amount of unrestricted assets, indicating relatively good financing flexibility. As of end-2021, the Company has restricted assets of RMB622 million, only accounting for 4.9% of total assets.

### Rating Outlook

The stable outlook on RXCI's rating reflects our expectation that the Lanshan District Government's capacity to provide support will be stable, and the Company will maintain its essential role in Lanshan District over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Lanshan 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 diversifying source of funding and improving asset liquidity.

#### What could downgrade the rating?

The rating could be upgraded if (1) Lanshan 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 diversifying source of funding and improving asset liquidity.



## 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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