

Credit Opinion

19 May 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

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Qingdao Ronghui Fortune Investment Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Qingdao Ronghui Fortune Investment Holding Group Co., Ltd.'s long-term credit rating to A_g-, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Qingdao Ronghui Fortune Investment Holding Group Co., Ltd. ("QDRH" or the "Company") to A_g- from BBB_g+, reflecting our expectation of increasing government's willingness to provide support. This is evidenced by the solid record of support from the local government and QDRH's improved operational status such as moderating commercial risk.

The A_g- long-term credit rating of QDRH reflects Shibei District Government's very 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 Shibei District Government's capacity to provide support reflects Shibei District's sound economic and fiscal strength, with a gross regional product ("GRP") of over RMB100.0 billion.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) key role in the industrial and urban development in Shibei District; (2) good track record of government support such as receiving shantytown assets and equity transfer; and (3) good access to diversified funding sources.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; and (2) increasing short-term debt burden.

The stable outlook on QDRH's rating reflects our expectation that Shibei District Government's capacity to provide support will be stable; and the Company will maintain its key role in industrial and urban development in Shibei District over the next 12 to 18 months.

Rating Drivers

- Key role in the industrial and urban development in Shibei District
- Moderate exposure to commercial activities
- Good track record of receiving government support
- Increasing short-term debt burden
- Good access to diversified funding sources

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Shibei District Government's capacity to support 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) Shibei 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, or a deterioration in its financing ability.

Key Indicators

	2022FY	2023FY	2024FY
Total Assets (RMB billion)	66.0	72.3	75.1
Total Equity (RMB billion)	27.9	28.0	28.4
Total Revenue (RMB billion)	11.5	10.1	8.3
Total Debt/Total Capital (%)	46.6	52.2	54.2

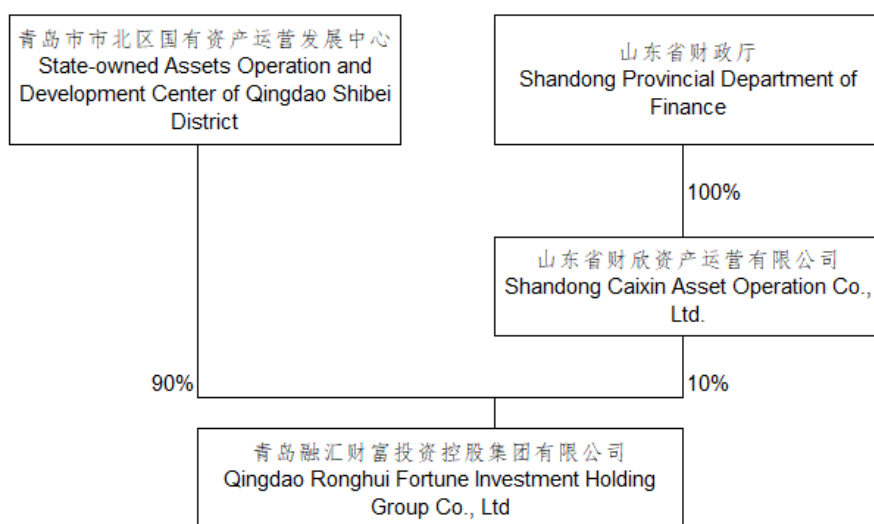
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

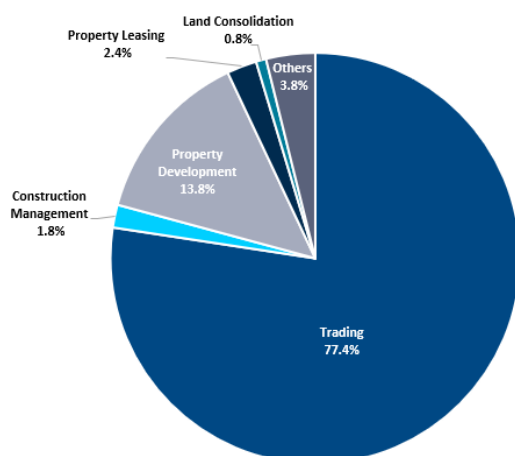
Established in 2019, QDRH is the one of the primary local infrastructure investment and financing companies ("LIIFCs") that focuses on urban investment and operations, as well as industrial services in Shibei District, Qingdao City. QDRH is engaged in land consolidation and development, infrastructure construction and shantytown development in Shibei District. It also undertakes commercial activities such as property development, property leasing, trading and financial investment. As of 31 December 2024, QDRH was 90.0% owned by the State-owned Assets Operation and Development Center of Qingdao Shibei District ("Shibei SAODC") and 10.0% owned by the Shandong Caixin Asset Operating Co., Ltd. Its ultimate controller was the Shibei SAODC.

Exhibit 1. Shareholding chart as of 31 December 2024



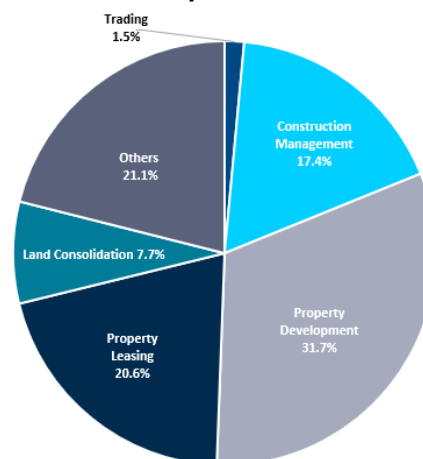
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2024



Rating Considerations

Government's Capacity to Provide Support

We believe that Shibei District Government has a very strong capacity to provide support, based on its sound economic fundamentals and fiscal strength.

Shandong is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding and marine technology, chemicals, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported a GRP of RMB1,671.9 billion in 2024, ranking first in Shandong Province. Qingdao City also has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70.0% of its general budgetary expenditure, and tax income accounted for more than 70.0% of its general budgetary revenue on average. As of end-2024, the outstanding debt of Qingdao Municipal Government increased to RMB438.3 billion, accounting for 26.2% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Qingdao City

	2022FY	2023FY	2024FY
GRP (RMB billion)	1,492.1	1,567.0	1,671.9
GRP Growth (%)	3.9	5.9	5.7
General Budgetary Revenue (RMB billion)	127.3	133.8	133.9
General Budgetary Expenditure (RMB billion)	169.6	171.9	172.0
Local Government Debt (RMB billion)	308.0	362.0	438.3

Source: Qingdao Municipal Government, CCXAP research

Located along the coast of Jiaozhou Bay, Shibei District is one of the urban areas with relatively concentrated population in Qingdao City. Benefited from its abundant human resources and a vast consumer market, tertiary industries such as beer and textiles industry have developed rapidly and contributed significantly to the local economy. With good business environment for privately-owned companies, the number of listed companies in Shibei District ranks first among districts and counties in Qingdao City, such as Tsingtao Brewery Company Limited, Qingdao Eastsoft Communication Technology Co., Ltd. and Qingdao Guolin Technology Group Co., Ltd. In 2024, Shibei District achieved a GRP of RMB125.7 billion, representing a YoY growth rate of 4.8%. Moreover, Shibei District Government remains good fiscal metrics. Over the past three years, the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) has exceeded 100.0%, indicating strong fiscal self-sufficiency. However, the general budgetary revenue decreased slightly to RMB8.6 billion in 2024 from RMB9.6 billion in 2023, mainly due to a decline in tax revenue. The tax income is a stable and important source of Shibei District Government's general budgetary revenue. Its average fiscal stability ratio over the past three years was 86.3%. As of the end of 2024, its outstanding direct government debt reached to RMB13.6 billion, accounting for 10.8% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Shibei District

	2022FY	2023FY	2024FY
GRP (RMB billion)	112.4	121.8	125.7
GRP Growth (%)	4.6	6.2	4.8
General Budgetary Revenue (RMB billion)	7.4	9.6	8.6
General Budgetary Expenditure (RMB billion)	5.9	7.2	5.2
Local Government Debt (RMB billion)	8.4	10.4	13.6

Source: Shibei District Government, CCXAP research

Government's Willingness to Provide Support**Strong strategic position as the key LIIFC in Shibei District**

QDRH is one of the primary LIIFCs in Shibei District, with a strong strategic position under the local government's planning. There are another LIIFCs in Shibei District, including Qingdao Shibei Construction Investment Group Co., Ltd. ("SBCI") and Qingdao Huanhaiwan Investment and Development Group Co., Ltd. ("Huanhaiwan Group"). SBCI is positioned as an urban operator that specializes in urban renewal, investment and operations. Huanhaiwan Group is responsible for infrastructure construction and operation in the Cruise Port Core Area. QDRH is positioned as a main entity in Shibei District that undertakes financial investment, industrial investment, as well as urban development and construction, including infrastructure construction. It is responsible for land consolidation and secondary development such as construction of factories, office buildings and commercial development in Shibei District. As of 31 December 2024, QDRH's total assets achieved RMB75.1 billion, ranking first among three LIIFCs in Shibei District. Overall, considering its strategic significance

to the development of Shibei District, we believe that the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Large investments in infrastructure and land consolidation that support local urban and industrial development

QDRH is one of the main entities in Shibei District providing infrastructure construction such as resettlement housing and shantytown construction. It conducts the business by signing construction agreements with the government or entrusted parties. As of 30 September 2024, the Company completed shantytown construction projects with a total investment of RMB3.2 billion, pending for government repurchases. The Company also develops and sells resettlement housing to residents who are affected by the land demolition directly at market prices. The profitability of the resettlement housing projects is relatively weak and relied on the sales of additional housing, shops or surrounding facilities to the market. As of 30 September 2024, the Company had 2 resettlement housing projects under construction with a total investment of RMB19.8 billion and an outstanding of RMB4.7 billion. At the same time, the Company had one key infrastructure construction project under construction, namely the stadium optimization project, with an outstanding investment of RMB146.1 million.

QDRH also engages in land primary development business through its subsidiaries, including the work of relocation, land clearance, land levelling and construction of supporting facilities. The Company completed several land consolidation projects related to old factories removal and industrial zones, which has helped urban planning optimization and industrial upgrading in Shibei District. As of 30 September 2024, the Company had an outstanding investment of RMB3.1 billion in key land consolidation projects under consolidation with a total investment of more than RMB6.2 billion. Among them, the land primary development project in the International Big Health Industry Zone, an important industrial zone in Shibei District, has the largest planned investment. At the same time, the Company had no land consolidation projects under planning.

Moderate exposure to commercial activities

QDRH is engaged in diversified commercial activities including trading business, property development, property leasing and financial investment. While the commercial activities generate supplemental income, they may also pose higher operating and business risks than traditional infrastructure construction business. QDRH relies on external financing to support the development of its commercial activities. Based on our assessment, the Company's exposure to commercial business was moderate, with commercial assets accounting for approximately 30.0% of total assets as of 30 September 2024.

QDRH develops commercial housing, shops and office buildings and generates income through sales or leasing. As of 30 September 2024, there were 9 key projects under construction with a total investment amount of around RMB10.6 billion and an outstanding amount of around RMB3.6 billion, which were mainly located in industrial parks, such as Science and Technology Innovation Park, Steal Research Project and Qingdao Biological Research Exchange Center. Steal Research Project is one of the most important projects out of the propose of investment attraction under the guidance of the local government. The commercial buildings of this project will be sold to the largest comprehensive research and development and high-tech industrialization organization in metallurgical industry, namely China Iron & Steel Research Institute Group, below market prices. The Company is expected to receive government subsidies through tax rebates. In 2024, the Company disposed of a non-performing property company. Meanwhile, the Company had 4 completed property projects with a total investment of RMB2.1 billion, with an overall selling rate of around 65.0%, and half of the unsold properties have been leased, which resulting in a payment collection of RMB1.2 billion as of 30 September 2024. In

addition, the Company had no property projects under planning as of 30 September 2024. The Company's subsequent exposure to real estate is expected to decline.

The Company also purchased an unfinished commercial property from a local private-owned property developer in 2023, named Aorun International Project, with a total investment of RMB2.0 billion and an outstanding amount of RMB630.0 million as of 30 September 2024. The project will be built into a five-star hotel complex integrating functions of business conferences, leisure and entertainment, and tourism and vacation, aiming to help with the overall improvement of the Happy Coastal City Area. This project is expected to achieve fund balancing through the lease and sale of the office building, hotel, and apartment. Since the Company's property sales are easily affected by the market conditions, together with large initial and future investments, the cash collection and investment return are uncertain. The Company is also involved in property leasing business and obtains the leasing asset through self-constructions and acquisitions. As of 30 September 2024, most of the Company's leasing assets had high occupancy rates. At the same date, there were 6 projects under construction, including office building and factory, with a total investment amount of RMB4.7 billion and an uninvested amount of RMB2.2 billion. Meanwhile, the Company had a project under planning with an estimated investment of RMB699.0 million.

QDRH has established funds to invest in strategic emerging industries including medical health, advanced manufacturing, new energy, artificial intelligence, new generation information technology, aerospace, and advanced manufacturing. It invests in the equity of companies through its established funds or cooperates with other government-related entities and investment institutions to form sub-funds. As of 30 September 2024, the Company has managed 8 mother funds with managed assets of around RMB4.2 billion. The funds exit mainly through the secondary market or shareholder buyback. Long investment period with uncertain return may expose the Company to high business risk.

QDRH's trading business mainly focuses on building materials and non-ferrous metals. The trading business represents a large portion of its revenue stream but generates a minimal profit margin. Since 2022, the trading business expanded rapidly and thus occupied more capital considering its trading cycle of around 90 days and storage of non-ferrous metals. The Company strictly screens its customers through careful credit evaluation and collects payment in advance. Its downstream customers consisted of state-owned enterprises and private companies with relatively good dispersion. The Company stores non-ferrous in reputable warehousing companies and uses derivatives in public market to hedge the price risk. The concentration rate of both upstream and downstream customers is around 50.0% by the end of 2023.

Good track record of receiving government support

As a major entity undertaking public activities in Shibei District, QDRH has a solid track record of receiving government support in various forms such as capital injection, asset injection, financial subsidies, and government payment for construction projects. Since its establishment, Shibei District Government has transferred equity of several companies to the Company, enlarging the Company's business scope and strengthening its capital base. For example, in 2022, the government transferred Qingdao Hongjing Sifang Industrial Development Group Co., Ltd. to the Company, increasing the capital reserve by RMB9.5 billion. In 2023 and 2024, the local government further transferred its shareholding in some state-owned companies and other assets to the Company, such as Qingdao Guochen Huixin Asset Management Co., Ltd., increasing the capital reserve from RMB18.6 billion as of end-2022 to RMB18.9 billion as of 31 December 2024.

The Company is expected to continuously receive government payment for its land consolidation and construction activities. Some of the repayment is visible as related agreement signed with the local government.

According to the repurchase agreement, the local government will repurchase the shantytown assets with total investment of RMB3.2 billion. However, the land consolidation is easily affected by fluctuations in the land market and the progress of land transfer. Apart from that, local government continued to provide financial support to release the Company's financing pressure such as injection of special bond funds and project initial funds as well as on-lending the loans for the shantytown projects from China Development Bank.

Given the Company's strategic importance in Shibei District, we believe that the Shibei District Government will continue to provide QDRH with ongoing operational and financial support.

Increasing short-term debt burden

QDRH has an increasing debt level because of its continuous investment in land consolidation, shantytown projects and property development. As of 31 December 2024, the Company's total debt increased to RMB33.7 billion from RMB24.3 billion as of end-2022. The total capitalization ratio, as measured by total debt to total capital, was 54.2% as of 31 December 2024. At the same time, the Company had relatively high short-term debt burden with the short-term debt accounting for 49.8% of the total debt. In addition, the liquidity profile was weak with a cash to short-term debt ratio of around 0.2x as of 31 December 2024, indicating that its cash balance was insufficient to cover its short-term debt. Considering the ongoing investment in projects under construction and increase in investment in commercial activities, such as commercial building construction and financial investment, we expect the Company may rely on external financing and its total debt level will continue to increase in the next 12 to 18 months.

Besides, QDRH's asset liquidity was moderate. As of 31 December 2024, the Company's inventories account for 55.1% of the total assets. The Company's inventories mainly include costs of land consolidation, property development, and shantytown assets transferred by Shibei District Government, which are considered low liquidity. At the same time, the Company's capital reserve comprises a substantial number of government special bonds and project capital received for construction projects, which require attention for future disposal and impact on the Company's equity.

Good access to diversified funding sources

The Company's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. QDRH has good access to various sources of funding, including banks and the bond market. It has maintained good relationships with large domestic banks, including national joint-stock commercial banks and state-owned large commercial banks. As of 30 September 2024, it had total credit facilities of approximately RMB32.7 billion with an unused portion of around RMB10.0 billion. QDRH is also active in onshore debt capital market. The Company issued different financial products in the onshore bond market such as SCPs, corporate bonds, MTNs and private placement notes. From January 2024 to March 2025, the Company and its subsidiary SBUD raised RMB9.6 billion through the issuance of 13 tranches of domestic bonds. In addition, QDRH maintained a relatively low exposure to non-standard financing, accounting for less than 5.0% as of 30 September 2024.

ESG Considerations

QDRH bears environmental risks through its land consolidation, infrastructure and property development projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction phase.

The Company is also exposed to social risks as a public services provider in Shibei District. Demographic changes, public awareness, and social priorities shape government's targets for QDRH, or affect the government's propensity to support the Company.

QDRH's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Qingdao Ronghui Fortune Investment Holding Group Co., Ltd.	Qingdao Shibe Construction Investment Group Co., Ltd.
Long-Term Credit Rating	Ag-	Ag-
Shareholder	State-owned Assets Operation and Development Center of Qingdao Shibe District (90%) and Shandong Caixin Asset Operating Co., Ltd. (10%)	State-owned Assets Operation and Development Center of Qingdao Shibe District (100%)
Positioning	Key entity in the industrial and urban development in Shibe District	Key urban operator, focusing on urban investment and operations in Shibe District
Total Assets (RMB billion)	75.1	57.6
Total Equity (RMB billion)	28.4	17.6
Total Revenue (RMB billion)	8.3	23.7
Total Debt/Total Capital (%)	54.2	68.3

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2024.

Source: Company information, CCXAP research

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