CCXAP affirms Shandong Luzhong Investment Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 21 April 2026 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Shandong Luzhong Investment Co., Ltd. ("SDLZ" or the "Company") at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of SDLZ reflects Yiyuan County Government's (1) relatively strong capacity to support, and (2) extremely high willingness to support based on our assessment of the Company's characteristics. Our assessment of Yiyuan County Government's capacity to provide support reflects its location advantage in Zibo City with steady economic growth, but constrained by its modest fiscal profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in local economic development and infrastructure construction in Yiyuan County; and (2) good track record of receiving government payments. However, the rating is constrained by its (1) increasing exposure to commercial activities; (2) rising investment needs that will heighten its debt leverage; and (3) moderate funding access.

Corporate Profile

Founded in 2016, SDLZ is one of the major local state-owned enterprises that is responsible for local investment and infrastructure construction in Yiyuan County. The Company also diversified into other commercial business, including medical glass bottle sales, self-operated construction, and photovoltaic power generation businesses. SDLZ is the largest shareholder of Shandong Pharmaceutical Glass Co., Ltd. ("SDPG") (Stock Code: 600529.SH), which is a leading pharmaceutical glass packaging manufacturer in China and headquartered in Yiyuan County. As of 30 September 2025, the Company is owned and ultimately controlled by the Finance Bureau of Yiyuan County ("Yiyuan Finance Bureau") through Shandong Luzhong Holding Group Co., Ltd.

Rating Rationale

Credit Strengths

Important role in local economic development and infrastructure construction in Yiyuan County. SDLZ undertakes local infrastructure construction and industrial investments in Yiyuan County. Since its establishment, the Company had completed various infrastructure projects, which are crucial to local social and economic development, benefiting the general public and local employment. We believe that the Company will maintain an important position in the public policy projects in Yiyuan County and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government payments. Since its incorporation, SDLZ has had a proven track record of receiving support from the local government in terms of capital injections, project payments, and subsidies. For instance, the Company continued to receive operating subsidies of RMB14.6 million in 2024. We expect that, as the key local state-owned enterprise in Yiyuan County, the Company plays an irreplaceable role in the region's development and operations, and will continue to receive government support over the next 12 to 18 months.

Credit Challenges

Increasing exposure to commercial activities. SDLZ participates in different commercial activities, including medical glass bottle sales and photovoltaic power generation. While these commercial activities generate supplemental income, they may also pose higher operational and business risks than its public-policy businesses. We consider the Company's risk exposure to commercial activities is rising as SDLZ increases its investment in self-operated projects. As of end-September 2025, the Company had 5 self-operated projects under construction, with a total investment amount of RMB4.5 billion, and an uninvested amount of RMB2.3 billion. Meanwhile, there is an industrial park construction project under planning with an estimated investment of RMB600.0 million. It shall be noted that the relatively large investment amount on these projects may enlarge the Company's capital expenditure pressure. In addition, the subsequent operation of self-operated projects faces certain uncertainties, and the investment payback period may be prolonged.

Increasing debt burden driven by capital expenditure on construction projects. With ongoing financing for construction projects, SDLZ's total debt has been growing over the past few years. As of 30 September 2025, the Company's total debt rose to RMB5.9 billion from RMB3.5 billion as of end-2023, while its total capitalization ratio increased to 41.5% from 30.6% over the same period. For the period from 2023 to 2025Q3, as the Company is actively improving its debt structure, its short-term debt repayment pressure has eased, with its short-term debt portion declining to 13.2% of total debt at end-2025Q3, down from 50.8%. In addition, the cash-to-short-term debt ratio improved, increasing to 1.8x from 1.1x. However, given the ongoing capital expenditure pressure, we expect the Company to continue relying on external financing, such as bank loans and bonds, and that its debt burden will continue to increase.

Moderate funding access with reliance on debt capital markets. SDLZ had access to various sources of funding, including bank loans, onshore and offshore bond financing, as well as non-standard financing. Bond financing accounts for most of the Company's debt, representing more than two-thirds as of 30 September 2025. As of the same date, the Company had total bank credit facilities of RMB3.2 billion, with an unutilized portion of RMB2.6 billion.

Rating Outlook

The stable outlook on SDLZ's rating reflects our expectation that the Yiyuan County Government's capacity to provide support will remain stable, and the Company will maintain its importance in the development of Yiyuan County over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Yiyuan County 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 improved financing capability.

What could downgrade the rating?

The rating could be downgraded if (1) Yiyuan County 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, increased commercial risk, or deteriorated debt management.

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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