

## Credit Opinion

28 August 2023

### Ratings

Senior Unsecured Debt Rating	A <sub>g</sub> <sup>-</sup>
Long-Term Credit Rating	A <sub>g</sub> <sup>-</sup>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

### Analyst Contacts

George Wang +852-2860 7134  
Credit Analyst  
[george\\_wang@ccxap.com](mailto:george_wang@ccxap.com)

Christy Liu +852-2860 7130  
Credit Analyst  
[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Elle Hu +852-2860 7120  
Executive Director of Credit Ratings  
[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

*\*The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

### Client Services

Hong Kong +852-2860 7111

## Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.'s long-term credit rating at A<sub>g</sub><sup>-</sup>, with stable outlook.**

### Summary

The A<sub>g</sub><sup>-</sup> long-term credit rating of Qingdao West Coast New Area Ronghe Holding Group Co., Ltd. (“Ronghe Holding” or the “Company”) reflects Qingdao West Coast New Area (“QDWC New Area”) Government’s very strong capacity and very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of the local government’s capacity to provide support reflects the status of QDWC New Area as the ninth National New Area and the local government’s strong economic strength, good fiscal metrics, and debt profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full and direct ownership by the QDWC New Area Government; (2) strong strategic role in undertaking public policy projects in the development of the QDWC New Area; (3) good track record of receiving government payments; and (4) diversified and stable funding sources from major banks and bond markets.

However, the Company’s rating is constrained by its (1) high exposure to commercial activities; and (2) accelerated debt growth driven by expansion; and (3) risk exposure to regional private-owned enterprises during market downturn.

The stable outlook on Ronghe Holding’s rating reflects our expectation that the QDWC New Area Government’s capacity to provide support will be stable, and that the Company will maintain its strategic role in undertaking public policy projects in the QDWC New Area over the next 12 to 18 months.

## Rating Drivers

- Strong strategic role in undertaking public policy projects in the development of the QDWC New Area
- Undertaking major public policy activities in mandated areas, with sufficient project reserves
- Good track record of receiving government payments
- Diversified and stable funding sources from major banks and bond markets
- High exposure to commercial activities
- Risk exposure to regional private-owned enterprises during market downturn

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) QDWC New Area Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as consistently increases government payments, materially lowers the exposure to risky commercial activities and improves in debt management and asset quality.

### What could downgrade the rating?

The rating could be downgraded if (1) QDWC New Area 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, decreased government payments, or weakened funding capabilities.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	98.9	144.4	199.3	215.1
Total Equity (RMB billion)	29.0	44.7	60.3	61.9
Total Revenue (RMB billion)	24.3	29.1	38.6	12.8
Total Debt/Total Capital (%)	65.7	66.7	66.7	68.2

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

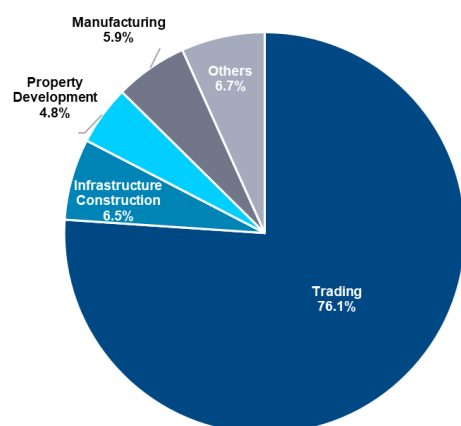
Source: CCXAP research

## Corporate Profile

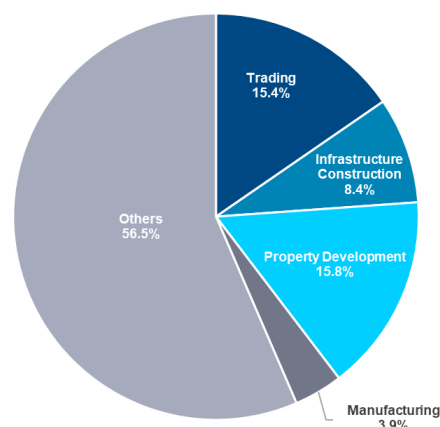
Founded in November 2018, Ronghe Holding is one of the two major local infrastructure investment and financing companies ("LIIFCs") in the QDWC New Area. It was directly and wholly owned by the Qingdao West Coast New Area State-owned Assets Administration Commission ("QDWC New Area SAAC") as of 31 March 2023. Ronghe Holding has undertaken major infrastructure construction, resettlement housing, and educational projects in the QDWC New Area. It is also involved in commercial activities including trading, property development, manufacturing, and financial services businesses such as guarantees, small-sum loans, pawning, and leasing.

**Exhibit 1. Shareholding chart as of 31 March 2023**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2022**

Source: Company information, CCXAP research

**Exhibit 3. Gross profit structure in 2022****Rating Considerations****Government's Capacity to Provide Support**

We believe the local government of the QDWC New Area has a very strong capacity to provide support given its good economic fundamentals and fiscal strengths.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, 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 GRP of RMB1,492.1 billion in 2022, increasing by 3.9% year-over-year and ranking first in Shandong Province and 13<sup>th</sup> among China's municipalities. Qingdao City's fiscal strength remained strong although its general budgetary revenue dropped from RMB136.8 billion in 2021 to RMB127.3 billion in 2022 due to the tax refund. Its general budgetary revenue covered around 75% of its general budgetary expenditure and tax incomes accounted for nearly 70% of its general budgetary revenue in 2022. Its direct government debt/GRP was 20.6% as of 31 December 2022.

**Exhibit 4. Key economic and fiscal indicators of Qingdao City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,240.1	1,413.6	1,492.1
GRP Growth (%)	3.7	8.3	3.9
General Budgetary Revenue (RMB billion)	125.4	136.8	127.3
General Budgetary Expenditure (RMB billion)	158.5	170.7	169.6
Local Government Debt (RMB billion)	205.8	255.9	308.0

Source: Statistics Bureau of Qingdao City, CCXAP research

The QDWC New Area (Huangdao District) is the ninth national new area established with the approval of the State Council of China in 2014. In 2022, the GRP of the QDWC New Area was RMB469.2 billion, representing around 30% of Qingdao's GRP and ranking third among national new areas in China after Pudong New Area and Binhai New Area. The QDWC New Area is an important and advanced manufacturing base and an emerging marine industry cluster. It has cultivated and formed six hundred-billion industrial clusters, namely automobile manufacturing, home appliances and electronics, petrochemicals, marine engineering, machinery and equipment, and shipping and logistics, while having more than 10 functional areas at the same time. The QDWC New Area had good fiscal balance and debt profile, with a high general budgetary revenue/general budgetary expenditure of 92.6% and a low direct government debt/GRP ratio of 11.4% as of 31 December 2022.

#### **Exhibit 5. Key economic and fiscal indicators of the QDWC New Area**

	2020FY	2021FY	2022FY
GRP (RMB billion)	372.2	436.9	469.2
GRP Growth (%)	3.9	10.3	4.8
General Budgetary Revenue (RMB billion)	25.7	26.1	22.4
General Budgetary Expenditure (RMB billion)	22.2	25.5	24.2
Local Government Debt (RMB billion)	26.3	38.8	53.3

Source: Statistics Bureau of QDWC New Area, CCXAP research

### **Government's Willingness to Provide Support**

#### **Strong strategic role in undertaking public policy projects in the development of the QDWC New Area**

Ronghe Holding is one of two pilot state-owned enterprises owned by the QDWC New Area SAAC and mandated by the government to develop the QDWC New Area. The Company is the core entity engaging in local integrating innovation, rural revitalization, as well as conversion of conventional and new energy. It has a high business position in the QDWC New Area and assumes a significant part of local public projects such as infrastructure construction and resettlement housing. The Company takes part in local infrastructure construction in four key functional areas, including Qingdao Economic and Technological Development Zone, Qingdao Guzhenkou Military-civilian Integration Innovation Demonstration Zone, Qiaotoubao Business Zone and China-Japan Cooperation Demonstration Zone. It is also entrusted by the QDWC New Area SAAC to undertake land consolidation work in the QDWC New Area. Ronghe Holding is currently the third largest LIIFC in Qingdao City and the largest LIIFC in the QDWC New Area, in terms of asset size. In view of its strategic role and business position in the QDWC New Area, we believe that the potential substitution for Ronghe Holding to be low and government support will be highly likely in the near future. The success of the QDWC New Area is also important to the municipal and national strategy.

#### **Undertaking major public activities in mandated areas, with sufficient project reserves**

Ronghe Holding's primary public activities include construction projects for roads, schools, and resettlement housing in the QDWC New Area, which cooperate with the local government's investment promotion plans. These projects are essential to local economic development and provide benefits to the general public as well as local employment. The Company has completed many important infrastructure projects, including the construction or upgrade of educational buildings, sewage treatment plants, heat source plants, and resettlement housing.

Ronghe Holding mainly engages in infrastructure construction through the agency construction model. The government will pay the total cost plus a few percentage markups after examining the projects, according to the agreement signed between the two parties. The Company has large construction projects and sufficient project reserves. Key construction projects in the QDWC New Area include the Wangtai New Motion Energy Industrial Base, the West Coast Transformation Development Zone, and the Yanjia River Area Reconstruction Project. The total investment amount for projects under construction was RMB46.1 billion, with outstanding investment amount of RMB14.9 billion. The Company has one planned construction project for a technology equipment and innovation industrial park in the Guzhenkou Integration Zone and some educational building projects, with an estimated investment of RMB4.6 billion.

#### **Exhibit 6. Key public projects under construction and planning as of 31 March 2023**

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB million)	(RMB million)	(RMB million)
<b><i>Projects Under Construction</i></b>				
Infrastructure Construction	7	36,174	25,842	10,332
Educational Building Projects	14	5,259	1,946	3,313
Resettlement Housing	2	4,704	3,404	1,300
<b><i>Projects Under Planning</i></b>				
Infrastructure Construction	1	4,000	-	4,000
Educational Building Projects	7	639	-	639
<b>Total</b>	<b>31</b>	<b>50,776</b>	<b>31,192</b>	<b>19,584</b>

Source: Company information, CCXAP Research

We believe that, with its strong policy mandate, Ronghe Holding's business position is highly visible and predictable. We also expect that the Company will undertake most of the public projects in the mandated areas, and it is unlikely to be replaced by other entities.

#### **Good track record of receiving government payments**

Ronghe Holding has a proven track record of receiving government payments. The Company's infrastructure investments are mostly funded by the local government through special bond funding. The Company also received cash injections, management fees for infrastructure projects, repurchase payments and other cash payments from the government to meet some of the financial needs of its public policy projects. The visibility of payment mechanism is expected to improve as the Company has signed payment contracts with the government for some educational infrastructure construction projects, and the total payment and annual payment become more transparent. Over the past years, government payments have steadily increased as the Company expanded in size.

Moreover, in 2022, the local government injected cash, assets, and equities of around RMB11.2 billion; while providing subsidies of RMB689 million to the Company. Thanks to the continuous injection, the Company's paid-in capital and capital reserves increased to RMB571.3 million and RMB35.7 billion as of 31 March 2023. We expect government payments to Ronghe Holding to continue to increase over the next 12 to 18 months, given its strong public policy role and large scale of public projects under construction and planning.

## High exposure to commercial activities

Ronghe Holding's exposure to commercial activities is high with large capital spending needs, which has constrained its rating. The Company's commercial activities include trading, property development, manufacturing, and financial services. Despite some of these activities that are more policy-driven and related to its public policy businesses, the local government's willingness to provide support may be reduced if its commercial exposure significantly increases, as it is more difficult for the government to support Ronghe Holding's commercial activities.

Ronghe Holding's commodity trading business has expanded rapidly, and its products include coal, metals, agricultural products, and building materials. Its trading revenue increased rapidly from RMB21.7 billion in 2021 to RMB29.4 billion in 2022. The large trading volume exposes the Company to price risk and counterparty risk. The gross profit margin of commodity trading is low, and the concentration in upstream and downstream industries is high which involves a certain risk of this business. Ronghe Holding's profit margin for its trading business remained low at 1.5% in 2022.

Ronghe Holding is also developing residential, commercial, and industrial properties in the QDWC New Area. The Company has an advantage in obtaining local high-quality real estate projects and is able to generate decent profits from property sales. As of 31 March 2023, the Company had 11 key real estate projects under construction and planning with total investment of RMB10.6 billion, with large capital expenditure needs. We consider property development business will be at risk due to the current instability in the property market. The Company also operates some property projects for leasing such as schools, hotels, commercial centers, and logistic buildings. Ronghe Holding's school projects are leased by the government with long-term tenancy agreements, which are deemed to have relatively low business risk.

Ronghe Holding is engaged in manufacturing businesses such as marine, concrete, casting, and high-end equipment production, which are relatively small in scale. The Company's manufacturing businesses are mainly guided by the QDWC New Area Government, with an aim to support the development of local industries. For example, in 2019, Ronghe Holding acquired 51% shares in Penglai Zhongbai Jinglu Vessel Industry Co., Ltd., a local marine manufacturing company. In 2022, it also acquired 27% shares in Taihai Manoir Nuclear Equipment Co., Ltd. (Stock Code: 002366.SZ), participating in the high-end equipment machinery manufacturing business. Therefore, we expect the Company's manufacturing business to increase moderately, however, it will also bear higher operational risk in cyclical industries.

In addition, the Company participates in some industrial funds to support the development of local emerging industries and has made equity investments in local financial institutions and enterprises such as Qingdao Rural Commercial Bank Corporation and Shida Shinghwa Advanced Material Group Co., Ltd.

## Risk exposure to regional private-owned enterprises during market downturn

Ronghe Holding's large-scale commercial activities also make it bear certain risk exposure to local private-owned enterprises, which have higher operation risks during market downturn. As of 31 December 2022, the Company reported total receivables (including account receivables, other receivables and long-term receivables) of RMB20.7 billion, mainly from its commercial activities such as trade and engineering businesses that have a relatively high collection risk. For example, the Company made a bad debt provision of RMB367 million for Huaxin Guohe Holdings Co., Ltd. and RMB367 million for Deyuan Investment Group Co., Ltd. The Company also provides financial services such as guarantees, small-sum loans, pawning and leasing, to local private-owned companies with relatively high asset risks. As of 31 December 2022, there have been 14 compensations

occurred in the guarantee business for a total amount of RMB83 million; while the non-performing ratio of small-sum loan, pawning and leasing businesses were 25.7%, 14.2%, and 4.2%, respectively. Moreover, the Company also provided external guarantees of around RMB460.1 million to local private-owned enterprises, which accounted for approximately 0.7% of its net assets.

### **Diversified and stable funding sources from major banks and bond markets**

Ronghe Holding has multiple financing channels to support its operations and investments, including bank loans and bond issuances. As of 31 March 2023, the Company's total debt increased to RMB128.8 billion, from RMB83.2 billion as end-2021. The accelerated debt growth was driven by continuous investment in infrastructure construction and real estate projects. Among them, loans from financial institutions accounted for the majority of Ronghe Holding's total debt, mainly provided by diversified domestic banks including policy banks such as China Development Bank, the Export-Import Bank of China, and large state-owned commercial banks such as Bank of China, Industrial and Commercial Bank of China Limited, which are stable sources of funding. In addition, the Company had large amount of total credit facilities of RMB89.5 billion as of 31 December 2022, of which RMB34.7 billion were undrawn.

Ronghe Holding also has good access to the onshore and offshore debt capital markets. It has issued different financial products in the onshore bond market such as commercial papers, MTNs, private placement notes, and asset-backed notes. From January 2022 to July 2023, the Company (excluding its subsidiaries) raised over RMB12 billion in the onshore bond market, with coupon rates ranging from 2.25% to 4.7%. The Company also issued two tranches of Free Trade Zone bonds with total amount of RMB700 million and coupon rates of 5.35% and 5.4%, respectively. Ronghe Holding has moderate exposure to shadow banking lending, which accounted for approximately 20% of its debts, which mainly consisted of financing leasing, loans from trusts, and asset management firms. Nevertheless, this exposure is manageable as the Company has clear internal control over high-cost financing channels, and maintains a moderate cost in non-standard products, ranging from 5% to 7%.

### **ESG Considerations**

Ronghe Holding assumes environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

Ronghe Holding is involved in educational infrastructure construction and surrounding support facilities, which help the government to attract targeted talent to build an International Ocean Talent Port. The Company is also exposed to social risks as a public services provider. Demographic changes, public awareness, and social priorities shape the government's target for Ronghe Holding and affect the government's propensity to support the Company.

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

### **Structural Consideration**

Ronghe Holding's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic role in undertaking public policy projects in the QDWC New Area, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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 7. Key functional areas of the QDWC New Area



Source: Company information, CCXAP Research



Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656