

Credit Opinion

30 November 2023

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

Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

christy_liu@ccxap.com

Allen Lin +852-2860 7128

Credit Analyst

allen_lin@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

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

Rizhao Xinlanshan Caijin Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Rizhao Xinlanshan Caijin Investment Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Rizhao Xinlanshan Caijin Investment Group Co., Ltd. ("RXCI" or the "Company") reflects Lanshan District Government's relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Lanshan District Government's 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 willingness to provide support, which is based on the Company's (1) essential role in infrastructure construction and public services in Lanshan District; (2) solid track record of receiving government payments; (3) low exposure to commercial activities; and (4) reasonable debt level.

However, the rating is constrained by the Company's (1) limited access to funding; and (2) moderate asset liquidity.

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 the development of Lanshan District over the next 12 to 18 months.

Rating Drivers

- Essential role in infrastructure construction and public services in Lanshan District
- Solid track record of receiving government payments
- Low exposure to commercial activities
- Reasonable debt level but moderate asset liquidity
- Limited access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Lanshan District 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 diversified source of funding and improved asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) Lanshan District 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, or increased exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	11.2	12.6	14.8	15.0
Total Equity (RMB billion)	6.4	7.3	7.4	7.5
Total Revenue (RMB billion)	0.5	0.5	0.6	0.4
Total Debt/Total Capital (%)	27.2	32.6	40.7	39.8

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

Source: Company information, CCXAP research

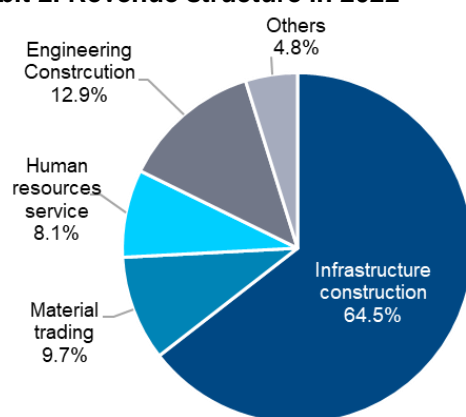
Corporate Profile

Founded in 2017, RXCI is an important local infrastructure investment and financing company ("LIIFC") in Lanshan District, mainly responsible for the infrastructure construction, shantytown projects and water supply in the Lanshan District. It is also engaged in commercial operations such as engineering construction and human resources service. As of 30 September 2023, the Company was wholly-owned by Rizhao Xinglan Holdings Group Co., Ltd. ("Xinglan Holdings"), and was ultimately controlled by State-owned Assets Supervision and Administration Bureau of Lanshan District, Rizhao City ("Lanshan District SASAB").

Exhibit 1. Shareholding chart as of 30 September 2023

State-owned Assets Supervision and Administration Bureau of Lanshan District, Rizhao City 日照市岚山区国有资产监督管理局	100%
Rizhao Xinglan Holdings Group Co., Ltd. 日照兴岚控股集团有限公司	100%
Rizhao Xinlanshan Caijin Investment Group Co., Ltd. 日照市新岚山财金投资集团有限公司	

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe the Lanshan District Government has a relatively strong capacity to provide support given its good fiscal balance and debt profile.

Shandong Province is the third largest province in terms of gross regional product ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding and marine technology, chemical, automotive and agri-food. Rizhao City is located in the southeast part of Shandong province with a total area of 10,947 square kilometers, which is one of the cities approved by the Ministry of Science and Technology to promote innovation-driven development. Rizhao City's leading industries include steel manufacturing, automobile and parts industry, agricultural and sideline food processing industry, and chemical industry. In 2022, it reported a GRP of RMB230.7 billion, representing 3.8% year-over-year ("YoY") growth. Rizhao City has moderate fiscal strength and a manageable debt profile. In 2022, its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 64%. As of end-2022, Rizhao Municipal Government's outstanding debt was RMB53.3 billion, accounting for 23.1% of GRP. In the first half of 2023, Rizhao City's GRP was RMB117.8 billion, a YoY increase of 5.3%.

Exhibit 3. Key Economic and Fiscal Indicators of Rizhao City

	2020FY	2021FY	2022FY
GRP (RMB billion)	200.6	221.2	230.7
GRP Growth (%)	3.8	6.8	3.8
General Budgetary Revenue (RMB billion)	17.6	18.7	18.6
General Budgetary Expenditure (RMB billion)	28.7	27.1	28.9
Local Government Debt (RMB billion)	41.6	46.0	53.3

Source: Statistics Bureau of Rizhao City, CCXAP research

Lanshan District is located in the south of Rizhao City, with a total area of 778 square kilometers. Supported by the pillar industries such as steel and chemicals industries, Lanshan District demonstrated ongoing economic growth for the past three years. In 2022, Lanshan District's GRP increased by 4.1% YoY to RMB59.0 billion, ranking 2nd among all districts/counties in Rizhao City. In addition, its general budgetary revenue recorded RMB4.6 billion in 2022, of which tax revenue represented 75.0%. Lanshan District has good financial self-sufficiency with fiscal balance ratios above 120% over the past three years. Lanshan District Government also has a good debt profile, with government debt accounting for 12.9% of GRP as of end-2022. In the first half of 2023, Lanshan District's GRP was RMB68.0 billion, a YoY increase of 6.4%.

Exhibit 4. Key Economic and Fiscal Indicators of the Lanshan District

	2020FY	2021FY	2022FY
GRP (RMB billion)	51.2	56.0	59.0
GRP Growth (%)	7.3	3.2	4.1
General Budgetary Revenue (RMB billion)	4.4	4.8	4.6
General Budgetary Expenditure (RMB billion)	3.2	2.8	3.3
Local Government Debt (RMB billion)	6.2	6.8	7.6

Source: Lanshan District Government, CCXAP research

Government's Willingness to Provide Support**Essential role in infrastructure construction and public services in Lanshan District**

Xinglan Holdings, RXCI's parent company, is the largest LIIFC in Lanshan District by total assets. As an important infrastructure construction subsidiary which is wholly owned by Xinglan Holdings, the Company is mainly responsible for the major infrastructure construction, shantytown projects, water supply and school bus services in the Lanshan District. Given its important role in local infrastructure construction and development, we believe that the Company is unlikely to be replaced in the foreseeable future.

RXCI is entrusted by the local government to undertake key public policy projects, mainly including major infrastructure construction and shantytown projects. It plays a clear strategic role in regional economic and social development by undertaking infrastructure construction projects and providing public welfare services. RXCI and its subsidiaries conduct infrastructure construction business through the entrusted construction model and the government purchase model. The Company transfers the project ownership to the entrusting parties after the project is completed, and will receive payments based on the total cost plus a certain markup in return. As of end-2022, the Company had several entrusted projects under construction, with a total investment of RMB10.3 billion and an uninvested amount of RMB4.4 billion. RXCI had no infrastructure construction projects under planning as of the same date.

RXCI also provides water supply and school bus services in Lanshan District. The Company is the sole water supplier in the rural area of Lanshan District. As of end-2022, the Company had a key water supply project under construction, including expansion and renovation of water plants, and the construction of new pressurized pumping stations, with a total investment of RMB272 million. In addition, under the government guidance, the Company acquired 125 registered school buses in the district and started to undertake school bus service in Lanshan District in 2019. As of end-2022, the Company had more than 120 school buses, serving 47 primary and secondary schools and more than 8,000 students in Lanshan District. The local government provides subsidies to water supply business and school bus services business due to their public welfare nature. We believe that the replacement cost for the Company's role is high as these public services are essential for the region.

Low exposure to commercial business activities

In addition to public activities, RXCI is also involved in other commercial businesses such as engineering construction and human resource service. As the commercial assets accounted for less than 15% of total assets as of end-2022, we estimate the Company's risk exposure to commercial business is low.

RXCI undertakes engineering construction projects through open market, mainly are municipal engineering construction projects in Lanshan District. From 2020 to 2022, the Company had completed 10 major engineering construction projects. The Company's engineering construction revenue has grown steadily in the past three years, achieving revenue of RMB72.7 million in 2022, providing additional income to the Company. The Company also provides human resources services mainly to the government institutions and other local state-owned companies in Lanshan District. In 2022, the Company's income from human resources service grew rapidly to RMB45.5 million from RMB28.0 million in 2020. However, the gross profit margin of the human resources service business was maintained at a low level in 2022.

RXCI also has some self-operated constructions over the past few years. For instance, the Company has undertaken the construction of Intelligent Logistics Hub Project (“智慧物流枢纽工程项目”), including car parks, warehouses and related supporting facilities. It aims to develop intelligent logistics and attract high-value companies to settle in Lanshan District, which helps support regional economic development. The total planned investment of the project is RMB1.1 billion, and the outstanding investment was RMB777 million as of end-2022. Such investment is expected to be balanced from future operating income, which mainly includes parking and service charges and warehousing leasing income.

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. From 2020 to 2022, RXCI received ongoing government subsidies for construction projects and water supply business, with total amount of RMB335.4 million. The Company also received capital injection of RMB1.4 billion from the local government over the past three years. In addition, the Company receives repurchase payments periodically for its infrastructure construction projects, and it has received repurchase payments of RMB700 million over the same period. However, there were uncollected payments of RMB381 million from the repurchased projects as of end-2022. At the same time, there were some completed infrastructure construction projects await to be repurchased, with a total invested amount of 2.8 billion. 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, but moderate asset liquidity

RXCI has a reasonable debt level, although with the continuous investment in self-operated and entrusted construction projects, and the Company's debt scale has maintained a growth trend in recent years. As of 30 September 2023, the Company's total debt amounted to RMB5.0 billion, with a reasonable total capitalization ratio (total debt/ total capital) of 39.8%. As of end-2022, the Company was going to invest around RMB5.2 billion for its infrastructure construction and the Intelligent Logistics Hub Project. 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.

In addition, the Company's liquidity profile is moderate. The Company's total assets mainly consist of inventories and receivables, which accounted for 91.6% of its total asset as of 30 September 2023. Inventories are mainly undeveloped lands and investment costs of infrastructure construction projects, while receivables are mainly unreceived payments for its infrastructure construction projects, all of which are considered as low liquidity. Fortunately, the Company has large amount of unrestricted assets, indicating relatively good financing flexibility. As of 30 September 2023, the Company has restricted assets of RMB1.0 billion, only accounting for 6.7% of total asset.

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-2022, over 70% of the Company's debt financing was provided by domestic banks, with total credit facilities of RMB4.2 billion and the available portion being RMB312.0 million. RXCI's exposure to non-standard financing is moderate, which accounted for around 25% of its total debt as of 30 September 2023. Given the Company's limited available credit facilities amount and large outstanding investment amount on its infrastructure construction projects, we consider additional funding channel is needed to fulfil its large capital expenditure, such as onshore and offshore debt capital market.

ESG Considerations

RXCI 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.

In terms of social concerns, the Company plays a crucial role in the social welfare of the residents in Lanshan District by providing public services. In addition, as one of the state-owned entities in Lanshan District, the Company has taken a number of measures to ensure the provision of utility and the daily needs of the residents. It also provided rent relief to local enterprises during the pandemic control period.

In terms of corporate governance, the Company is subject to oversight and reporting requirements of Lanshan District SASAB, which has full control and supervision over the Company's operations.

Rating Methodology

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

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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656