

## Credit Opinion

10 January 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	stable

### Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Jessica Cao +852-2860 7139

Credit Analyst

[jessica\\_cao@ccxap.com](mailto:jessica_cao@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 Ocean Holdings Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Qingdao West Coast New Area Ocean Holdings Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Qingdao West Coast New Area Ocean Holdings Group Co., Ltd. (“Ocean 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 9<sup>th</sup> 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) key strategic role in the infrastructure construction of the QDWC New Area; (3) solid track record of receiving government payments; and (4) good access to diversified fundings.

However, the rating is constrained by the Company’s (1) high exposure to commercial businesses; and (2) increasing debt burden driven by continuous investment.

The stable outlook on Ocean 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

- Key strategic role in the infrastructure construction of the QDWC New Area
- Solid track record of receiving government payments
- High exposure to commercial businesses
- Increasing debt burden driven by continuous investment
- good access to diversified fundings

## 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 materially lowers the exposure to risky commercial activities.

### 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 support, or weakened funding capabilities.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	94.1	131.8	159.8	177.4
Total Equity (RMB billion)	28.7	46.2	54.4	56.0
Total Revenue (RMB billion)	16.2	32.5	46.5	36.4
Total Debt/Total Capital (%)	66.2	62.3	65.2	67.3

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

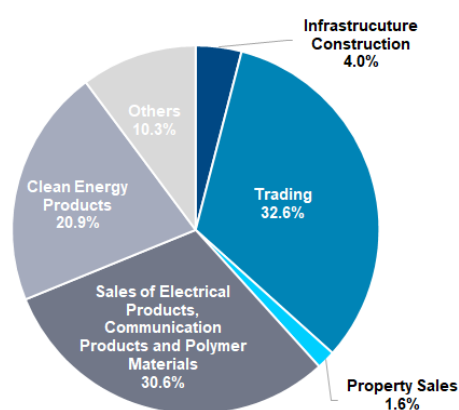
Source: Company data, CCXAP research

## Corporate Profile

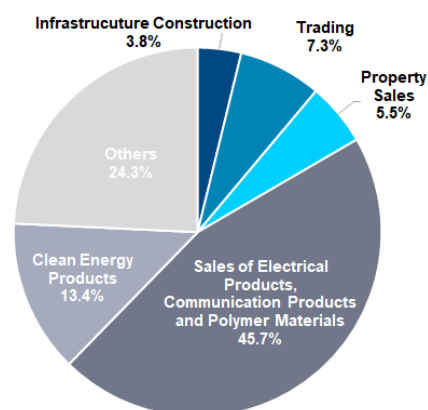
Founded in November 2018, Ocean Holding is one of the two major local infrastructure investment and financing companies ("LIIFCs") in the QDWC New Area. It was directly and wholly owned by the Qingdao West Coast New Area State-owned Assets Administration Commission ("QDWC New Area SAAC") as of 30 September 2023. Ocean Holding has undertaken major infrastructure construction and primary land consolidation projects in the QDWC New Area. It is also involved in commercial businesses including property development, trading, sales of electrical product, communication products and polymer materials, clean energy products sales, and equity fund investments.

**Exhibit 1. Shareholding as of 30 September 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 a GRP of RMB1.5 trillion in 2022, increasing by 3.9% year-over-year and ranking 1<sup>st</sup> among all prefecture-level cities in Shandong Province and 13<sup>th</sup> among all municipalities in China. 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; tax income accounted for nearly 70% of its general budgetary revenue in 2022. Qingdao City had a relatively good fiscal balance ratio, where its general budgetary revenue covered more than 75% of its general budgetary expenditure over the past three years. Its direct government debt/GRP was 20.6% as of 31 December 2022. In the first three quarters of 2023, Qingdao City's GRP amounted to RMB1.2 trillion, with a year-on-year("YoY") growth rate of 6.0%.

**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 9<sup>th</sup> 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 3<sup>rd</sup> 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. The general budgetary revenue of QDWC New Area was recorded at RMB22.3 billion in 2022. The average general budgetary revenue/general budgetary expenditure ratio was relatively high at 102.1% over the past three years. The QDWC New Area also had a low direct government debt/GRP ratio of 11.4% as of 31 December 2022. The GRP of the QDWC New Area was RMB365.0 billion in the first three quarters of 2023, accounting for 31% of the total GRP of Qingdao City.

**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	22.3
General Budgetary Expenditure (RMB billion)	22.2	25.5	25.2
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****Key strategic role in the infrastructure construction of the QDWC New Area**

Ocean 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 public projects such as infrastructure construction and land consolidation in QDWC New Area. The Company takes part in local infrastructure construction under agency construction model. Under the agent construction model, the Company is responsible for financing and construction of the projects assigned by the local government and receives project repayments from the government based on the total cost plus a few percentage markups after the examination of the projects. As of 30 September 2023, the Company had completed 14 infrastructure construction projects, with total investment of RMB3.7 billion. From the perspective of project reserves, the Company had 11 infrastructure construction projects under construction, such as bay regulation, Cold Chain Logistics Base, and Lingang Industrial Park constructions, with a total investment of RMB19.5 billion and an outstanding amount of RMB2.1 billion. The abundant projects under construction can ensure the sustainability of its infrastructure construction, but also bring relatively large capital expenditure pressure.

Ocean Holding's land consolidation projects are mainly carried out by its four subsidiaries, which are responsible for the projects in different regions in QDWC New Area. The Company undertakes land consolidation projects under agency construction model by signing construction agreements with the local government and receiving government payments based on the total cost of construction, usually with certain markups in return. As of 30 September 2023, the Company had completed 7 land consolidation projects, with a total investment of RMB258.0 million. The Company also had 7 land consolidation projects under construction with a total estimated investment amount of around RMB3.9 billion and an outstanding amount of RMB1.7 billion as of the same date.

Overall, the Company has a large development scope in QDWC New Area and a strong capability for business sustainability, and it is unlikely to be replaced by other entities.

### **Solid track record of receiving government support**

As one of the core LIIFCs of QDWC New Area, Ocean Holding has a solid track record of receiving government payments. The Company has received project payments, operating subsidies, and asset and cash injections from the local government to support its investments and business operations. From 2020 to 2023Q3, the local government injected RMB3.1 billion of cash into the Company, increasing its paid-in capital from RMB307.6 million to RMB3.4 billion. In addition, the Company's capital reserves increased from RMB19.3 billion to RMB25.9 billion over the same period, including equity transfer of some local state-owned enterprises and asset injection from the local government, such as pipelines, land and buildings.

In addition, from 2020 to 2022, the Company continuously received subsidies from the local government with total amount of RMB1.9 billion. Meanwhile, the Company also received government project repayments of RMB1.1 billion as of 30 September 2023. We expect government support to Ocean 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 business activities**

Ocean Holding's exposure to commercial businesses is relatively high with large capital expenditure needs. The Company's commercial businesses include trading, property development, sales of electrical products, communication products and polymer materials, clean energy products sales, and equity and fund investment. We consider the Company's exposure to commercial businesses to be high, especially in property development during the downturn of China's real estate market. Moreover, there was certain investment risk arising from equity investment, as it usually takes long time for the return to be fully reflected.

Ocean Holding engages in property development in QDWC New Area, including residential housing and commercial buildings. The Company self-develops these projects or cooperatively with other local real estate enterprises. As of 30 September 2023, the Company had completed 15 property development projects, with a total investment of RMB5.0 billion, most of which had been sold or leased out. Meanwhile, the Company had 9 major property projects under construction with a total investment of RMB7.3 billion and an outstanding investment of RMB2.8 billion. These commercial projects are subject to changes in the property market, and the subsequent project development and income may experience higher volatility, particularly during the downturn in China's property market.

Ocean Holding's trading products include building materials, coal, rubber, non-ferrous metals and steel, which generated considerable amount of income to the Company but earned a small profit margin. The Company

adopts demand-on-purchase and self-operated modes for its trading business. Under demand on purchase mode, the Company confirms the volumes and prices with downstream customers before placing orders from upstream customers. While under self-operated mode, Ocean Holding makes procurement first and stores the products in the warehouse, and the Company may bear the inventory risk and price risk. The concentration risk from upstream and downstream customers are relatively high, with the top 5 suppliers and customers accounting for around 60% of the total procurement and the total sales.

The Company's electrical products, communication products and polymer materials sales businesses were acquired through the acquisition of a listed company in 2020, namely Zhejiang Wanma Co., Ltd ("Wanma") (Stock Code: 002276.SZ), whose business mainly involves the sales of power cables, communication cables, and charging piles. The revenue from this business sector increased rapidly from RMB1.7 billion in 2020 to RMB14.2 billion in 2022, and also generated a relatively large proportion of gross profit to the Company. However, the increasing sales have generated a relatively large proportion of accounts receivables to Wanma. As of 30 June 2023, Wanma's account receivables accounted for around 41% of its total assets. Meanwhile, Wanma has two projects under construction, including equipment industrial park construction and environmentally friendly cable polymer materials project, with a total investment of RMB2.0 billion, which are expected to further increase the Company's revenue scale and profitability in the future.

Another listed subsidiary, Chengzhi Shareholding Co., Ltd. ("Chengzhi") (Stock Code: 000990.SZ), is responsible for the Company's clean energy products sales business. The business focuses on providing clean energy to the chemical enterprises. Chengzhi mainly uses coal to produce clean energy, making it vulnerable to changes in the international energy market, and resulting a high degree of uncertainty in the profitability of the business in the future. As of 30 June 2023, the business had two clean energy projects under planning, with an estimated investment of RMB4.8 billion. The projects are expected to take three years to complete. Upon completion, the capacity of the business will increase further.

In addition, the Company conducts equity investment through equity funds and direct investment, focusing on local emerging industries such as new materials, marine biomedicine, and cultural tourism and health care industries. Supported by the industrial development of QDWC New Area, Ocean Holding's equity investments continue to grow. As at the end of the third quarter of 2023, other non-current financial assets amounted to RMB4.8 billion. The Company plans to exit its investments through IPO listing or project repurchases. However, most of Ocean Holding's investments are at the initial investment stage which requires a long holding period, which may expose the Company to larger investment and execution risks.

### **Increasing debt burden driven by continuous investment**

Ocean Holding's debt had grown rapidly over the past three years due to continuous investment in infrastructure construction and commercial activities. As of 30 September 2023, the Company's total debt increased to RMB103.5 billion from RMB56.4 billion at end-2020. The Company's capitalization ratio remained at a relatively high level of around 67.3% as of the same date. In addition, the Company had a relatively high short-term debt burden, with short-term debt representing 40.3% of total debt at the end of September 2023. The cash to short-term debt ratio was around 0.4x, indicating its cash balance was insufficient to cover its short-term debt. We expect the Company may rely on external financing for its future infrastructure construction, land consolidation, and property development projects, and its debt leverage will be maintained at a high level in the next 12 to 18 months.

### **Good access to diversified fundings**



Ocean Holding has multiple financing channels to support its operations and investments, including bank loans, onshore and offshore bond issuances, which can partially relieve the pressure on debt repayment and capital expenditure. It maintains good relationships with joint-stock commercial banks and large state-owned commercial banks. As of 30 September 2023, the Company had a total credit facility of RMB98.5 billion from banks, with an unused portion of RMB46.2 billion.

The Company 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 bond, and PPN. For example, in February 2023, the Company issued a three-year private placement bond with a total amount of RMB500 million and a coupon rate of 4.5%. The Company also issued one tranche of offshore bond, raising RMB1.0 billion. We consider Ocean Holding's exposure to non-standard financing was controllable, accounting for around 15% to 20% of total debt as of 30 September 2023.

## ESG Considerations

Ocean 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.

Ocean Holding bears social risks in implementing public policy initiatives through the building of public infrastructure in QDWC New Area. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

Ocean 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.

## 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

	<b>Qingdao West Coast New Area Ocean Holdings Group Co., Ltd.</b>	<b>Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.</b>
Long-Term Credit Rating	A <sub>g</sub> -	A <sub>g</sub> -
Shareholder	Qingdao West Coast New Area State-owned Assets Administration Commission (100%)	Qingdao West Coast New Area State-owned Assets Administration Commission (100%)
Positioning	Key entity to carry out major infrastructure construction and primary land consolidation projects in the QDWC New Area.	Key entity to focus on the provision of major infrastructure construction, resettlement housing and educational projects in the QDWC New Area
Total Asset (RMB billion)	159.8	199.3
Total Equity (RMB billion)	54.4	60.3
Total Revenue (RMB billion)	46.5	38.6

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2022.

Source: CCXAP research, Company information

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**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