

## Credit Opinion

11 March 2024

### Ratings

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

### Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

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

Allen Lin +852-2860 7128

Credit Analyst

[allen\\_lin@ccxap.com](mailto:allen_lin@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

## Qihe Urban Investment Construction Group Co., Ltd

### Surveillance credit rating report

**CCXAP affirms Qihe Urban Investment Construction Group Co., Ltd's long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Qihe Urban Investment Construction Group Co., Ltd ("QUIC" or the "Company") reflects Qihe County Government's (1) relatively strong capacity to provide support, and (2) the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Qihe County Government's capacity to provide support reflects its status as the second largest county by gross regional product ("GRP") in Dezhou City, with fast economic growth, but constrained by moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position in infrastructure construction of Qihe County; and (2) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) moderate exposure to commercial businesses; (2) fast debt growth and relatively weak asset liquidity; and (3) tight liquidity position.

The stable outlook on QUIC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important strategic position of infrastructure construction and public utility services in Qihe County.

## Rating Drivers

- Dominant position in infrastructure construction of Qihe County
- Moderate exposure to commercial businesses
- Good track record of receiving government payments
- Access to funding with certain exposure to non-standard financing
- Fast debt growth and relatively weak asset liquidity
- Tight liquidity position

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local 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 debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) the local 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, deterioration in debt management, or weakened funding ability.

## Key Indicators

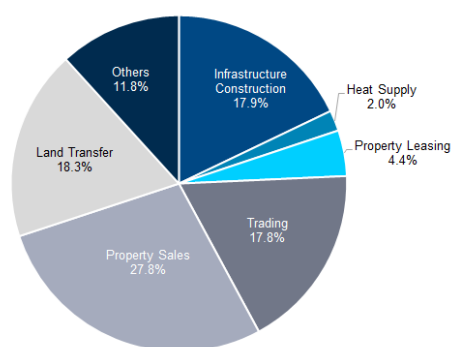
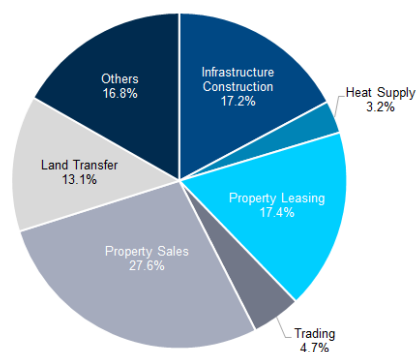
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	25.6	41.5	50.7	53.5
Total Equity (RMB billion)	14.9	23.2	25.0	27.1
Total Revenue (RMB billion)	1.7	2.1	3.4	3.1
Total Debt/Total Capital (%)	36.0	37.9	45.2	42.1

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

Source: Company data, CCXAP research

## Corporate Profile

Founded in April 2008, QUIC is the sole infrastructure construction entity in Qihe County, primarily undertaking municipal projects such as infrastructure construction, land development, shantytown renovation, and heat supply businesses. It is also engaged in commercial businesses such as property sales, self-operation projects, engineering construction, property leasing, and trading businesses. In November 2021, the State-owned Assets Supervision and Administration Bureau of Qihe County People's Government ("Qihe SASAB") transferred all share-holdings of Qihe Urban Management and Construction Investment Co., Ltd. ("QUMC") to the Company as a capital injection. As of 30 September 2023, the Company was wholly and ultimately controlled by Qihe SASAB, with a registered capital of RMB5.0 billion.

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company data, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe the Qihe County Government has a relatively strong capacity to provide support, based on its status as the second largest county by GRP in Dezhou City, with fast economic growth, but constrained by moderate fiscal metrics.

As the northwestern gate of Shandong Province, Dezhou City is located at the intersection of the Bohai Rim Economic Circle, the Beijing-Tianjin-Hebei Economic Circle, the Shandong Peninsula Blue Economic Zone, and the Yellow River Delta Efficient Ecological Economic Zone. In recent year, new generation information technology, new materials, modern medicine, high-end equipment manufacturing and new energy has developed fast and thus the industrial structure further optimized. Dezhou City is the 10th prefecture-level city ranked by GRP in Shandong Province. Dezhou City realized a GRP of RMB380.5 billion with a year-over-year (“YoY”) growth of 6.0% in 2023.

In 2023, Dezhou Municipal Government’s fiscal balance is still moderate. The general budgetary revenue of Dezhou City covered 40.2% of its expenditure, suggesting reliance on transfer payments from upper-level government to achieve fiscal balance. In 2023, Dezhou Municipal Government’s debt amount increased by 18.5% to RMB133.7 billion with local government debt, accounting for 35.1% of the GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Dezhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	348.9	363.3	380.5
GRP Growth (%)	8.3	4.4	6.0
General Budgetary Revenue (RMB billion)	23.4	23.3	25.1
General Budgetary Expenditure (RMB billion)	49.2	54.9	62.3
Local Government Debt (RMB billion)	92.5	112.8	133.7

Source: Dezhou Municipal Government, CCXAP research

As the southernmost county of Dezhou City, Qihe County is located at the intersection of the Beijing-Shanghai Economic Corridor and the Yellow River Ecological Corridor, facing Jinan City across the Yellow River. The economic and industrial development of Qihe County has benefited from the spillover effect of the strong economic strength of Jinan City. It ranked 65<sup>th</sup> among China’s Top 100 counties in terms of comprehensive strength in 2023. Qihe County’s economy has been growing over the recent years. In 2023, the GRP of Qihe County increased by 1.6% YoY to RMB42.6 billion, the second largest county by GRP in Dezhou City. However,

Qihe County has moderate fiscal metrics. Although, Qihe County's general budgetary revenue ranked top among all districts or counties among Dezhou City over the past three years. In 2023, its general budgetary revenue decreased to RMB3.6 billion from RMB4.0 billion in 2021. Meanwhile, its fiscal balance ratio (general budgetary revenue/general budgetary expenses) sharply decreased to 41.1% from 82.8% in 2021. The average fiscal balance ratio was 61.1% over the past three years. As of 31 December 2023, Qihe County Government reported an outstanding government debt of RMB10.3 billion and accounted for 24.1% of its GRP.

#### Exhibit 4. Key Economic and Fiscal Indicators of Qihe County

	2021FY	2022FY	2023FY
GRP (RMB billion)	39.9	42.8	42.6
GRP Growth (%)	9.0	5.0	1.6
General Budgetary Revenue (RMB billion)	4.0	3.9	3.6
General Budgetary Expenditure (RMB billion)	4.8	6.6	8.9
Local Government Debt (RMB billion)	6.3	8.1	10.3

Source: Qihe County Government, CCXAP research

### Government Willingness to Provide Support

#### Dominant position in infrastructure construction of Qihe County

As the dominant infrastructure construction entity in Qihe County, QUIC mainly engages in public activities through its subsidiary QUMC pursuant to local urban development plans. The Company is responsible for the infrastructure construction, land consolidation, shantytown renovation, heat supply and operation of a toll bridge in Qihe County, which are crucial to local economic and social development. Given its important role in local public welfare, we believe that the Company is unlikely to be replaced in the foreseeable future.

As the sole infrastructure construction operator in Qihe County, QUIC is entrusted by the local government to conduct infrastructure construction business under agency construction model. The Company has undertaken a large number of urban infrastructure projects, including construction of roads, hospitals, schools, landscapes, and utility facilities, greatly improving the public welfare of the residents in Qihe County. The construction costs of the projects are funded by the Company, and after the completion of the projects, Qihe County Government will repurchase the projects on cost-plus basis, usually with 15% markup in return to the Company. As of 30 September 2023, there were 4 projects under construction, with a total investment of RMB3.4 billion and uninvested amount of RMB1.9 billion. As of 30 September 2023, the Company also had 3 projects under planning, with a total investment of RMB3.9 billion.

The Company has been engaged in shantytown renovation business since 2018 in accordance with the shantytown renovation plans of Qihe County Government. It has undertaken resettlement housing construction projects by signing an agreement with the local government department. The construction costs of the projects are financed by the government special funds and the Company's self-raised funds, and after the completion of the projects, they will be sold to the relocated households at a pre-agreed price. However, the development period of resettlement housing projects usually lasts for 4 to 5 years, causing a relatively long payback period. As of 30 September 2023, there were 13 resettlement housing projects under construction, with a total investment of RMB18.0 billion and uninvested amount of RMB8.9 billion.

Entrusted by the local government, QUIC is the sole land consolidation entity in Qihe County, mainly responsible for demolition of rural areas and land leveling of resettlement areas. The development costs of the projects are mainly funded by the Company, but the local government will give certain subsidies depending on the local

fiscal profile. As of 30 September 2023, the Company had 3 projects under consolidation, with a total investment of RMB2.5 billion and outstanding investment of RMB1.5 billion. However, it did not recognize relevant revenue as the completed land consolidation projects had not been transferred. In addition, the Company has also been engaged in the transfer of self-owned land-use rights. From 2020 to 2023Q3, the Company transferred lands of about 751 mu, and recognized land transferring revenue of RMB1.1 billion.

QUIC's heat supply business is carried out by one of its subsidiaries, which is the primary heat supplier in Qihe County, with business scope covering about two-thirds of the region. As of 30 September 2023, the Company had distributed heat energy generated from its 76 heating stations to about 31 thousand households in Qihe County through its heat supply networks of 65 kilometers.

### **Moderate exposure to commercial business**

Apart from public services, QUIC has also been engaged in diversified commercial activities, mainly including property sales, self-operation projects, engineering construction, property leasing, and trading businesses. Although the commercial activities can bring in supplemental income, they may also pose certain operating risks to the Company. We estimate that the Company's exposure to commercial businesses is moderate, accounting for around 30% of its total assets at of 30 September 2023.

The Company has carried out construction of self-owned operating properties, such as medical centre, supporting facilities, and parking lots. The Company would achieve financial balance by operating, leasing, or selling the properties. As of 30 September 2023, it had 11 self-owned projects under construction and 2 project under planning, with a total investment of RMB13.7 billion and an outstanding investment of RMB8.8 billion. However, the development period of some of the projects is long, resulting in a relatively long payback period. Moreover, the operational revenue of self-operation projects has more uncertainties comparing to direct payment from local government. QUIC also engages in engineering construction business with relevant qualifications. The Company adopts general contracting model to conduct engineering construction business. Meanwhile, the Company had 8 contracts on hand with contracts amount of RMB998 million.

QUIC participates property sales business through its subsidiaries, including residential housing and commercial buildings. The Company acquires land through "bidding, auction, and listing" in the open market, and builds real estate projects such as residential buildings, industrial parks, and complexes in accordance with Qihe County's plans, and achieves fund balancing through selling or leasing after completion. As of 30 September 2023, there were 11 real estate projects under construction, with a total investment amount of around RMB10.8 billion and an uninvested amount of RMB8.1 billion. However, under the downturn of the real estate market, increasing investment in property development may bring more operating uncertainty and financial risks to the Company.

The Company also engages in leasing business, including properties and pipelines, with a book value of more than RMB4.0 billion as of 30 September 2023. These leasing assets have leased out to a local state-owned enterprise for 5 years. Although the leasing business could provide supplementary revenue to the Company, there was a certain lag in rental payments and relatively high concentration of tenant. As of 30 September 2023, the uncollected rental payment was RMB102 million.

To facilitate the local trading market, the Company engaged in trading business in 2020, mainly involving trading of building materials and steels. In 2022, it recorded a trading revenue of RMB603 million, accounting for 17.8% of the total revenue. However, there was a certain concentration risk. As of 31 December 2022, the top 5 suppliers and customers accounted for 73% and 65% of its total procurements and total sales, respectively.

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

QUIC has a proven track record of receiving government support in the form of asset transfer, capital injection, and operating subsidies. From 2020 to 2023Q3, the Company received government subsidies of over RMB905 million for its operation businesses. From 2022 to 2023Q3, the local government continued to injected capital to the Company with a total value of RMB933.3 million, including equities of some state-owned companies and assets such as equipment and roads, enhancing its capital strength and market position. From 2022 to 2023Q3, the Company also received cash injections from the local government, increasing its paid-in capital by RMB1.6 million. In terms of government payments, the Company has received payments for the infrastructure construction, land consolidation, and shantytown renovation projects according to the agreements signed with the local government. We believe that, given the important position of QUIC and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

### **Access to funding with certain exposure to non-standard financing**

The Company has access to different financing channels, including bank loans, bond issuances, and non-standard financing products. It has maintained a good relationship with policy banks and large state-owned commercial banks, including Agricultural Development Bank of China, Agricultural Bank of China and China Development Bank. As of 30 September 2023, the Company had obtained total bank credit facilities of RMB9.9 billion, with an unutilized amount of RMB3.0 billion. From January 2023 to February 2024, the Company and its subsidiary QUMC had raised RMB1.6 billion in onshore bond market. It also tapped into offshore bond market, raising RMB2.3 billion through 10 tranches of offshore bond issuances. However, the Company has a relatively high reliance on non-standard financing, accounting for around 25% to 30% of the total debts. Moreover, QUIC's non-standard financing products generally have high financing costs, which would reduce its financing flexibility.

### **Fast debt growth and relatively weak asset liquidity**

Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. As of 30 September 2023, its total debt increased to RMB19.7 billion from RMB8.4 billion as of end-2020, while its total capitalization ratio increased to 42.1% from 36.0%. At the same time, the Company's short-term debt was RMB8.4 billion, accounting for around 43% of total debt, and its cash to short-term debt ratio was 0.3x, indicating that its cash reserves could not fully cover its short-term debt. Considering the large investment of projects under construction and planning, we expect the Company's debt burden would further increase in the next 12 to 18 months, given its high financing demands for construction projects.

In addition, QUIC's asset liquidity is relatively weak. As of 30 September 2023, the Company had pledged a number of assets for loans, such as cash, lands and investment properties, with a total amount of RMB7.8 billion, accounting for around 15% of its total assets and 29% of its net assets. Moreover, restricted assets of around RMB5 million were frozen due to the lawsuit incurred through endorsing the note receivable of RiseSun Real Estate Development Co., Ltd. ("RiseSun"). Besides, the Company's inventories increased significantly from RMB9.0 billion as of end-2020 to RMB23.6 billion as of 30 September 2023, accounting for 44.2% of total assets, mainly due to the ongoing investments in resettlement housing construction and self-owned projects. A relatively weak asset liquidity would undermine the Company's financing flexibility.

### **Tight liquidity position**

The Company and its subsidiaries have been facing liquidity problem since July 2023. The commercial bills of QUIC's subsidiaries have been overdue for multiple times since July 2023. As of 29 February 2024, the

Company's subsidiaries had no outstanding overdue payment for the commercial bills; the accumulative amount of overdue payments of the Company's subsidiaries' commercial bills was more than RMB778 million. Apart from that, some of QUIC's non-standard financing products have been overdue and the Company needs defer the payment of these non-standard financing products. As of 29 February 2024, the Company and its major subsidiary QUMC had total outstanding principal and interest amount of domestic bond and offshore bond due in 2024 (including exercisable bonds) of RMB410 million and RMB354 million, respectively. Therefore, the Company bears relatively large liquidity pressure. Moreover, as of 6 March 2024, the Company's subsidiary Qihe Sunshine Real Estate Co., Ltd. has been listed as a judgement debtor for several times for endorsing note receivables of RiseSun, which also exposes the Company to certain contingent liability risks. Considering the important role of the Company in Qihe County, Qihe County Government and Dezhou Municipal Government would provide certain liquidity support when necessary.

## ESG Considerations

QUIC is exposed to environmental risks because it has undertaken infrastructure construction, land development, and shantytown renovation projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

In terms of social concerns, QUIC plays a crucial role in the social well-being of the residents in Qihe County by undertaking road construction, ecological environment management and heat supply projects.

In terms of corporate governance, QUIC'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 considerations

QUIC's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its important strategic position of infrastructure construction and public utility services in Qihe County, 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 \(July 2022\)](#).

Copyright © 2024 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