

## Credit Opinion

3 April 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Qingdao Ronghui Fortune Investment Holding Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Qingdao Ronghui Fortune Investment Holding Group Co., Ltd.'s long-term credit rating of at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Qingdao Ronghui Fortune Investment Holding Group Co., Ltd. (“QDRH” or the “Company”) reflects Shibe District Government’s very strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Shibe District Government’s capacity to provide support reflects Shibe District’s sound economic and fiscal strength, with a gross regional product (“GRP”) of over RMB100 billion.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role in the industrial and urban development in Shibe District; (2) good track record of government support such as receiving shantytown assets and equity transfer; and (3) good access to diversified funding sources.

However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities; and (2) increasing short-term debt burden.

The stable outlook on QDRH’s rating reflects our expectation that Shibe District Government’s capacity to provide support will be stable; and the Company will maintain its key role in industrial and urban development in Shibe District over the next 12 to 18 months.

## Rating Drivers

- Key role in the industrial and urban development in Shibe District
- Increasing exposure to commercial activities
- Good track record of receiving government support
- Increasing short-term debt burden
- Good access to diversified funding sources

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Shibe District Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as reduced exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) Shibe District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a reduction in the importance of its policy role, weakened government payments, or a deterioration in its financing ability.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	49.8	60.6	66.0	73.4
Total Equity (RMB billion)	24.6	28.4	27.9	28.1
Total Revenue (RMB billion)	1.2	1.8	11.5	7.0
Total Debt/Total Capital (%)	44.5	48.8	52.6	56.1

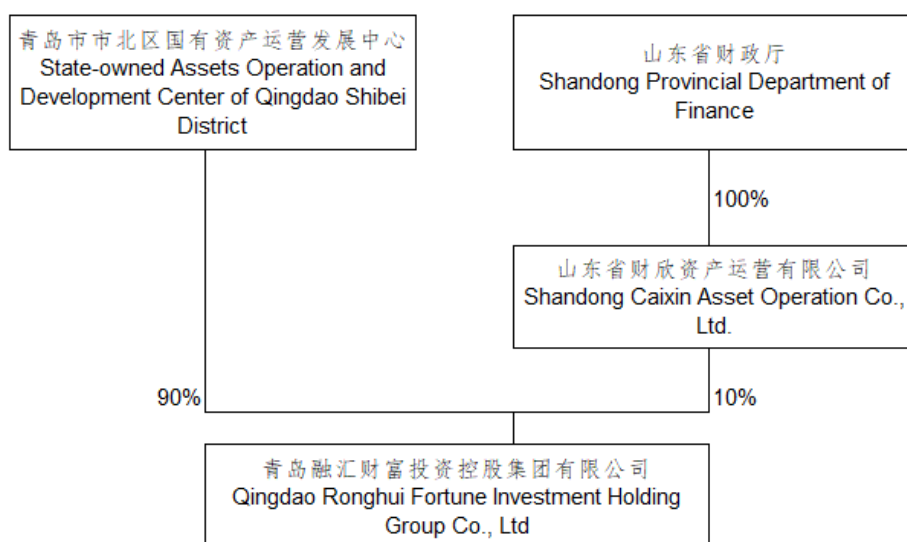
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

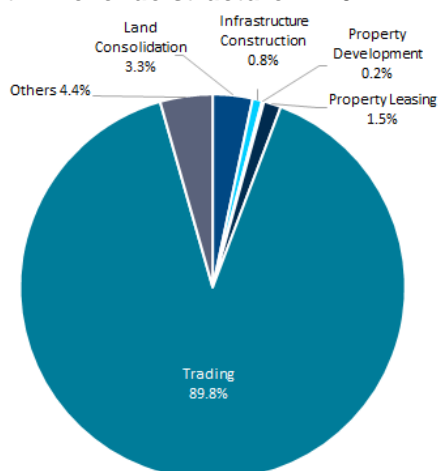
Established in 2019, QDRH is the one of the primary local infrastructure investment and financing companies ("LIIFCs") that focuses on urban investment and operations, as well as industrial services in Shibe District, Qingdao City. QDRH is engaged in land consolidation and development, infrastructure construction and shantytown development in Shibe District. It also undertakes commercial activities such as property development, property leasing, trading and financial investment. As of 30 September 2023, QDRH was 90% owned by the State-owned Assets Operation and Development Center of Qingdao Shibe District ("Shibe SAODC") and 10% owned by the Shandong Caixin Asset Operating Co., Ltd. Its ultimate controller was the Shibe SAODC.

### Exhibit 1. Shareholding and organization chart as of 30 September 2022



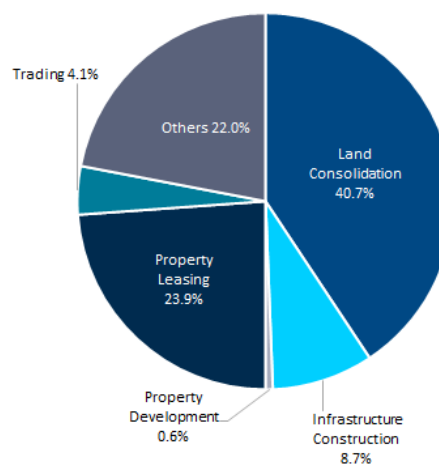
Source: Company information, CCXAP research

### 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 that Shibei District Government has a very strong capacity to provide support, based on its sound economic fundamentals and fiscal strength.

Shibei District is one of the districts in Qingdao City, Shandong Province. Shandong is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding and marine technology, chemicals, automotive and agri-food. Qingdao City is one of the five cities that under separate state planning in China and the city with the biggest economic size and strongest average income level in Shandong. Its GRP and GRP per capita ranked among the top in Shandong over the past five years. From 2020 to 2023, its GRP demonstrated an upward trend, reaching RMB1.6 trillion. Qingdao Municipal Government has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70%

of its general budgetary expenditure, and tax incomes accounted for more than 70% of its general budgetary revenue on average. As of the end of 2023, its outstanding direct government debt amounted to RMB362.0 billion, or 23% of the GRP.

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

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,413.6	1,492.1	1,567.0
GRP Growth (%)	8.3	3.9	5.9
General Budgetary Revenue (RMB billion)	136.8	127.3	133.8
General Budgetary Expenditure (RMB billion)	170.7	169.6	171.9
Local Government Debt (RMB billion)	255.9	308.0	362.0

Source: Statistics Bureau of Qingdao City, CCXAP research

Located along the coast of Jiaozhou Bay, Shibei District is one of the urban areas with relatively concentrated population in Qingdao City. Benefited from its abundant human resources and a vast consumer market, tertiary industries such as beer and textiles industry have developed rapidly and contributed significantly to the local economy. With good business environment for privately-owned companies, the number of listed companies in Shibei District ranks first among districts and counties in Qingdao City, such as Tsingtao Brewery Company Limited, Qingdao Eastsoft Communication Technology Co., Ltd. and Qingdao Guolin Technology Group Co., Ltd. From 2020 to 2022, Shibei District's economy has been strengthening, and its GRP increased from RMB96.2 billion to RMB112.4 billion. In 2023, it reported GRP of RMB120.3 billion, a Year-on-Year increase of 6.2%. Moreover, Shibei District Government's fiscal strength increased, with good fiscal metrics. Over the past three year, the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) exceeded 100%. It's average fiscal stability ratio over the past three years was recorded at 83.8%. As of the end of 2023, its outstanding direct government debt amounted to RMB10.4 billion, accounting for 8.6% of the GRP.

#### Exhibit 5. Key economic and fiscal indicators of Shibei District

	2021FY	2022FY	2023FY
GRP (RMB billion)	106.4	112.4	120.3
GRP Growth (%)	6.5	4.6	6.2
General Budgetary Revenue (RMB billion)	10.4	7.4	9.6
General Budgetary Expenditure (RMB billion)	6.9	5.9	6.0
Local Government Debt (RMB billion)	7.4	8.4	10.4

Source: Shibei District Government, CCXAP research

### Government's Willingness to Provide Support

#### Strong strategic position as the key LIIFC in Shibei District

QDRH is the one of the primary LIIFCs in Shibei District, with a strong strategic position under the local government's planning. There are other LIIFCs including Qingdao Shibei Construction Investment Group Co., Ltd. ("SBCI") and Qingdao Huanhaiwan Investment and Development Group Co., Ltd. ("Huanhaiwan Group"). SBCI is positioned as an urban operator that specializes in the urban renewal, investment and operations. Huanhaiwan Group is responsible for infrastructure construction and operation in the Cruise Port Core Area with 4.2 square kilometers. QDRH is positioned as a main entity in Shibei District that undertakes financial investment, industrial investment as well as urban development and construction including infrastructure construction. It is responsible for land consolidation and secondary development such as construction of

factories, office building and commercial development in Shibe District. As of 30 September 2023, QDRH's total assets achieved RMB73.4 billion, ranking first among three LIIFCs in Shibe District.

### **Large investments in infrastructure and land consolidation that support local urban and industrial development**

QDRH is one of the main entities in Shibe District providing infrastructure construction such as resettlement housing and shantytown construction. It conducts the business by signing construction agreements with the government or entrusted parties. As of 30 September 2023, the Company had completed shantytown construction projects with total investment of RMB3.2 billion, pending for government repurchases. The Company also developed and sold resettlement housing to residents who were affected by the land demolition directly at market prices. The profitability of the resettlement housing projects was relatively weak and relied on the sales of additional housing, shops or surrounding facilities to the market. As of 30 September 2023, the Company had completed 2 resettlement housing projects with total investment of RMB1.4 billion, which were mostly sold. At the same time, the Company had one key infrastructure construction project under construction, with an outstanding investment of RMB450.0 million.

QDRH also engages in land primary development business through its subsidiaries, including the work of relocation, land clearance, land levelling and construction of supporting facilities. The Company has completed several land consolidation projects related to old factories removal and industrial zones, which help urban planning optimization and industrial upgrading in Shibe District. As of 30 September 2023, the Company had outstanding investment of more than RMB5.0 billion in key land consolidation projects under consolidation with a total investment of more than RMB9.0 billion. Among them, the land primary development project in the International Big Health Industry Zone, an important industrial zone in Shibe District, has the largest planned investment.

### **Increasing exposure to commercial activities**

QDRH is engaged in diversified commercial activities including trading business, property development, property leasing and financial investment. While the commercial activities generate supplemental income, they may also pose higher operating and business risks than traditional infrastructure construction business. QDRH relies on external financing to support the development of its commercial activities. The increase of investment in property development projects may increase the Company's exposure to commercial activities.

QDRH develops commercial housing, shops and office buildings and generates income through sales or leasing. The completed commercial housing projects were mostly sold. As of 30 September 2023, there were 7 key projects under construction with a total investment amount of around RMB10.6 billion and an outstanding amount of around RMB3.4 billion, which were mainly located in industrial parks, such as Science and Technology Innovation Park, Steal Research Project and Qingdao Biological Research Exchange Center. Steal Research Project is one of the most important projects out of the propose of investment attraction under the guidance of the local government. The commercial buildings of this project will be sold to the largest comprehensive research and development and high-tech industrialization organization in metallurgical industry, namely China Iron & Steel Research Institute Group, below market prices. The Company is expected to receive government subsidies through tax rebates.

The Company also purchased an unfinished commercial property from a local private-owned property developer in 2023, namely Binhai International Garden project, with a future investment of more than RMB1.0 billion. The project will be built into a five-star hotel complex integrating functions of business conferences, leisure and

entertainment, and tourism and vacation, aiming to help with the overall improvement of the Happy Coastal City Area. Since the Company's property sales are easily affected by the market conditions, together with large initial and future investments, the cash collection and investment return are uncertain. The Company is also involved in property leasing business and obtained the leasing asset through self-constructions and acquisitions. As of 30 September 2023, most of the Company's leasing assets had high occupancy rates. The Company's rental income increased from RMB146.5 million in 2021 to RMB167.1 million in 2022.

QDRH has established funds to invest in strategic emerging industries including medical health, advanced manufacturing, new energy, artificial intelligence, new generation information technology, aerospace, and advanced manufacturing. It invests in the equity of companies through its established funds or cooperates with other government-related entities and investment institutions to form sub-funds. As of 30 September 2023, the Company has managed 8 mother funds with managed asset of around RMB3.7 billion. The funds exit mainly through the secondary market or shareholder buyback. Long investment period with uncertain return may expose the Company to high business risk.

QDRH's trading business mainly focuses on building materials and non-ferrous metals. The trading business represents a large portion of its revenue stream but generates a minimal profit margin. In 2022, the trading business expanded rapidly and thus occupied more capital considering its trading cycle of around 90 days and storage of non-ferrous metals. The Company strictly screens its customers through careful credit evaluation and collects margin in advance. Its downstream customers consisted of state-owned enterprises and private companies with relatively good dispersion. The Company stores non-ferrous in reputable warehousing companies and uses derivatives in public market to hedge the price risk.

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

As a major entity undertaking public activities in Shibe District, QDRH has a solid track record of receiving government support in various forms such as capital injection, financial subsidies, and government payment for construction projects.

From 2019 to 2022, Shibe District Government has transferred equity of several companies to the Company. For example, in 2020, 100% equity of Qingdao Shibe Urban Development Group Co., Ltd. ("SBUD") was transferred to the Company, which became one of the key subsidiaries of the Company. In 2022, the government transferred Qingdao Hongjing Sifang Industrial Development Group Co., Ltd. to the Company, increasing the capital by RMB9.7 billion. In addition, the local government transferred the shantytown project assets in 2020 and 2021, with a total amount of RMB11.8 billion, which also helped strengthen the Company's capital.

The Company is expected to continuously receive government payment for its land consolidation and construction activities. Some of the repayment is visible as related agreement signed with the local government. According to the repurchase agreement, the local government will repurchase the shantytown assets with total investment of RMB3.2 billion. However, the land consolidation is easily affected by fluctuations in the land market and the progress of land transfer. Apart from that, local government also provides financial support to release the Company's financing pressure such as injection of special bond funds and project initial funds as well as on-lending the loans for the shantytown projects from China Development Bank.

Given the Company's strategic importance in Shibe District, we believe that the Shibe District Government will provide QDRH with ongoing operational and financial support.

### Increasing short-term debt burden

QDRH has an increasing debt level because of its continuous investment in land consolidation, shantytown projects and property development. As of 30 September 2023, the Company's total debt increased to RMB36.0 billion from RMB27.1 billion as of end-2021. The total capitalization ratio, as measured by total debt to total capital, was 56.1% as of 30 September 2023. At the same time, the Company had relatively high short-term debt burden with the short-term debt accounting for 31.2% of the total debt. In addition, the liquidity profile was weak with a cash to short-term debt ratio of around 0.4x as of 30 September 2023, indicating that its cash balance was insufficient to cover its short-term debt. Considering the ongoing investment in projects under construction and increase in investment in commercial activities, such as commercial building construction and financial investment, we expect the Company may rely on external financing and its total debt level will continue to increase in the next 12 to 18 months.

Besides, QDRH's asset liquidity was moderate. As of 30 September 2023, the Company's inventories account for 58.5% of the total assets. The Company's inventories mainly include costs of land consolidation, property development and shantytown assets transferred by Shibe District Government, which are considered low liquidity.

### Good access to diversified funding sources

The Company's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. QDRH has good access to various sources of funding, including banks and the bond market. It has maintained good relationships with large domestic banks including national joint-stock commercial banks and state-owned large commercial banks. As of 30 September 2023, it had total credit facilities of approximately RMB33.3 billion with an unused portion of around RMB13.6 billion, which were provided by various commercial banks. QDRH also has access to onshore debt capital market and issued different financial products in the onshore bond market such as SCPs, corporate bonds, MTNs and private placement notes. From January 2023 to March 2024, the Company and its subsidiary SBUD raised RMB10.4 billion through the issuance of 14 tranches of domestic bonds. In addition, QDRH has manageable exposure to non-standard channels, accounting for less than 5% as of 30 September 2023.

### ESG Considerations

QDRH bears environmental risks through its land consolidation, infrastructure and property development projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction phase.

The Company is also exposed to social risks as a public services provider in Shibe District. Demographic changes, public awareness, and social priorities shape government's targets for QDRH, or affect the government's propensity to support the Company.

QDRH's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, 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 Ronghui Fortune Investment Holding Group Co., Ltd.</b>	<b>Qingdao Shibe Construction Investment Group Co., Ltd.</b>
Long-Term Credit Rating	BBB <sub>g</sub> +	BBB <sub>g</sub> +
Shareholder	State-owned Assets Operation and Development Center of Qingdao Shibe District (90%) and Shandong Caixin Asset Operating Co., Ltd. (10%)	State-owned Assets Operation and Development Center of Qingdao Shibe District (100%)
Positioning	Key entity in the industrial and urban development in Shibe District	Key urban operator, focusing on urban investment and operations in Shibe District
Total Asset (RMB billion)	66.0	49.8
Total Equity (RMB billion)	27.9	15.2
Total Revenue (RMB billion)	11.5	6.2

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

Source: Company information, CCXAP research



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