

Credit Opinion

8 April 2024

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

Analyst Contacts

Allen Lin +852-2860 7128

Credit Analyst

allen_lin@ccxap.com

Jessica Cao +852-2860 7139

Credit Analyst

jessica_cao@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

Jinan Shizhong Finance Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Jinan Shizhong Finance Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g+ long-term credit rating of Jinan Shizhong Finance Investment Group Co., Ltd. ("SZFI" or the "Company") reflects Shizhong District 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 Shizhong District's important position as the political, economic, cultural, and financial center of Jinan City, and its gross regional product ("GRP") has ranked top three among the counties or districts in Jinan City for years.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position as the largest local infrastructure investment and financing companies ("LIIFC") in Shizhong District; and (2) good track record of receiving government supports.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities, with a certain portion in property development; (2) increasing debt burden and moderate asset liquidity; and (3) relatively high exposure to no-standard financing.

The stable outlook on SZFI's rating reflects our expectation that the local government's capacity to provide support will be stable, and that the Company will maintain its important position in the development of Shizhong District over the next 12 to 18 months.

Rating Drivers

- Dominant position as the largest LIIFC in Shizhong District
- Good track record of receiving government supports
- Medium exposure to commercial activities, with a certain portion in property development
- Increasing debt burden and moderate asset liquidity
- Relatively high exposure to no-standard financing

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Shizhong District 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 lowers the exposure to risky commercial activities, and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Shizhong 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 weakened government support.

Key Indicators

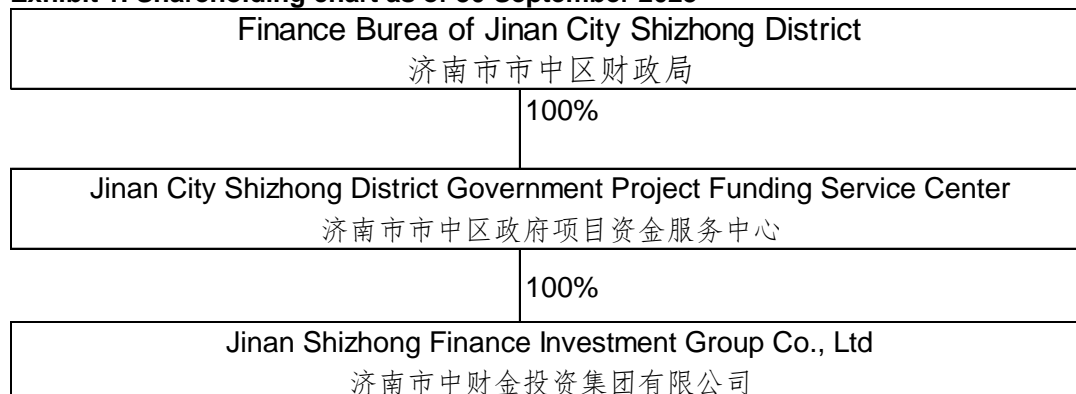
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	36.6	41.7	52.3	62.6
Total Equity (RMB billion)	13.5	15.1	15.6	15.6
Total Revenue (RMB billion)	3.0	7.4	6.9	5.8
Total Debt/Total Capital (%)	54.9	56.0	63.3	69.3

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

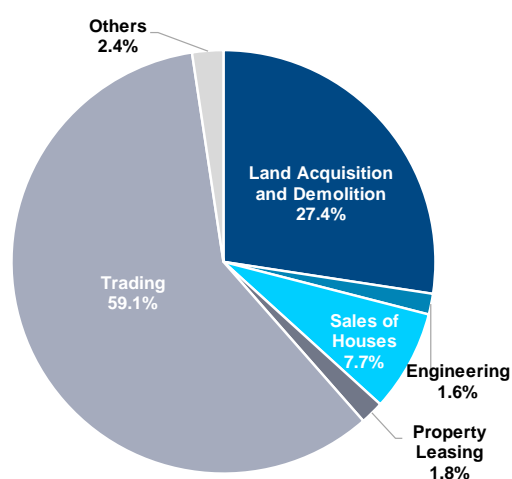
Source: Company data, CCXAP research

Corporate Profile

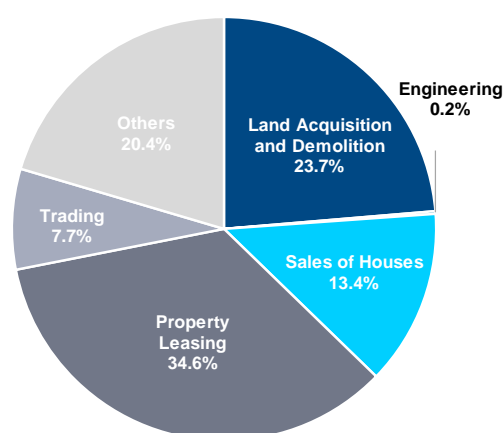
Founded in June 1992, SZFI is the most important and largest LIIFC in terms of total assets in Shizhong District, and directly and indirectly controls the major LIIFCs in Shizhong District. The Company is mainly responsible for land acquisition and demolition, infrastructure construction, and resettlement housing construction in Shizhong District. The Company is also involved in commercial businesses including sales of houses, property leasing, trading, financial investment as well as financial services. As of 30 September 2023, the Company was directly and wholly owned by the Jinan City Shizhong District Government Project Funding Service Center, and Shizhong District Government was the actual controller.

Exhibit 1. Shareholding chart as of 30 September 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

Source: Company data, CCXAP research

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

We believe the local government of Shizhong District has a very strong capacity to provide support given its important position as the political, economic, cultural, and financial center of Jinan City, and its GRP has ranked top three among the counties or districts in Jinan City for years.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Jinan City is a sub-provincial city, the capital of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1 trillion over the past three years. Over the same period, Jinan City ranked 9th by GRP among 15 sub-provincial cities in China and ranked 2nd among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2021 to 2023, its general budgetary revenue increased from RMB100.8 billion to RMB106.1 billion, with average self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of 77.7%. As of 31 December 2023, the local government's outstanding debt amounted to RMB318.0 billion, accounting for 24.9% of GRP.

Exhibit 4. Key economic and fiscal indicators of Jinan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,143.2	1,202.8	1,275.7
GRP Growth (%)	7.2	3.1	6.1
General Budgetary Revenue (RMB billion)	100.8	100.0	106.1
General Budgetary Expenditure (RMB billion)	129.3	126.0	136.5
Local Government Debt (RMB billion)	212.0	266.0	318.0

Source: Jinan Municipal Government, CCXAP research

Located in the south-central area of Jinan, Shizhong District is the political, economic, cultural, and financial center of Jinan City. It focuses on key areas such as financial industry, digital economy, technology, cultural and creative Industries, and intelligent manufacturing. Shizhong District has demonstrated an ongoing economic growth in recent years. In 2023, the GRP of Shizhong District increased by 6.2% YoY to RMB135.0 billion, ranking 3rd among 12 districts or counties in Jinan City. Tax revenue accounted for over 80% of the general public revenue over the past three years, which is a stable revenue source. Shizhong District has a strong fiscal balance of general budget, with a high general budgetary revenue/general budgetary expenditure ratio over 140% for the past three years. Due to the uniform transfer of land transfer revenue to Jinan City, Shizhong District Government has no government fund revenue. The balance of government fund expenditure in Shizhong District primarily relies on government fund transfer income and debt reloan. The government fund transfer income of Shizhong District Government mainly consists of the refund of land sales revenue. However, the land transfer market in Shizhong District has experienced significant fluctuations in recent years. The transfer income of land sales of Shizhong District Government sharply decreased from RMB6.9 billion in 2021 to less than RMB600 million in 2023. As of 31 December 2023, the local government's outstanding debt amounted to RMB5.4 billion, accounting for 4.0% of GRP.

Exhibit 5. Key economic and fiscal indicators of Shizhong District

	2021FY	2022FY	2023FY
GRP (RMB billion)	116.2	127.6	135.0
GRP Growth (%)	7.2	3.1	6.2
General Budgetary Revenue (RMB billion)	10.8	8.9	9.8
General Budgetary Expenditure (RMB billion)	6.1	6.3	6.2
Local Government Debt (RMB billion)	3.3	4.0	5.4

Source: Shizhong District Government, CCXAP research

Government's Willingness to Provide Support**Dominant position as the largest LIIFC in Shizhong District**

As the most important and largest LIIFC in terms of total assets in Shizhong District, SZFI is an exclusive entity for primary land development projects. The Company is also responsible for related infrastructure construction and resettlement housing projects on the consolidated land parcels, improving the public welfare of the residents of Shizhong District.

The Company participates in land acquisition and demolition projects mainly through the agency construction model. Under the agency construction model, the Company is entrusted to be responsible for the construction and part of the financing of the projects. The Company receives project advances from the Shizhong District Finance Bureau based on the 60% of the revenue from the state-owned land transfer. The relevant costs of

infrastructure construction and resettlement houses projects on the consolidated land parcels are included in the costs of land acquisition and relocation, which would achieve fund balancing through the land sale refunds. The Company's land acquisition and demolition projects are mainly located in Nanbeikang Area, Xinglong Area, Baimashan Area and Dangjia Area in Shizhong District. As of 30 September 2023, the Company had 9 land acquisition and demolition projects under construction with total invested amount of around RMB37.2 billion. Meanwhile, the Company had 2 proposed projects with total planned investment of RMB9.9 billion.

As at 30 September 2023, SZFI had completed 6 major infrastructure construction projects in Shizhong District, including pipeline construction and road construction projects, with a total investment of approximately RMB875.5 million. Meanwhile, the Company had 10 infrastructure construction projects under construction with planned investment of RMB2.1 billion and uninvested amount of RMB1.2 billion. At the same time, the Company was also engaged in the development of resettlement housing on the consolidated land parcels. As at 30 September 2023, the Company had completed 8 major projects with a total investment of approximately RMB5.7 billion. The Company also had one resettlement housing project under construction with a total investment of RMB940 million and an outstanding amount of RMB94 million. The Company has sufficient project reserves to support the good stability and sustainability of the land acquisition and demolition and relevant infrastructure construction business. However, the Company's undertaking part of financing of the projects would bring relatively high investment pressure and increase SZFI's debt burden.

Good track record of receiving government support

As the key entity in land acquisition and demolition and relevant infrastructure construction in Shizhong District, SZFI has a good track record of receiving government supports. The Company has received project payments, operating subsidies, and cash injections from the local government to support its business operations. The Company received government subsidies over RMB1.3 billion from 2020 to 2023Q3. The government also injected cash into the Company to enhance its capital strength. From 2020 to 2023Q3, the Company received a total of RMB1.6 billion in cash from the government.

In addition, from 2020 to 2023Q3, the Company received special bond from local government with total amount of around RMB439.0 million to support its infrastructure construction and land consolidation business. The Company also received ongoing project repayments from local government. As of 30 September 2023, the Company had received project payments for land acquisition and demolition and relevant infrastructure construction of around RMB11.7 billion. However, the project payment of land acquisition and demolition business is significantly influenced by the land market in Jinan City. The revenue of land acquisition and demolition business sharply decreased to RMB1.9 billion in 2022 from RMB5.9 billion in 2021.

Given SZFI's important position and large scale of policy projects under construction and planning, we expect local government would continuous to provide support to the Company over the next 12 to 18 months. However, the strength of government support in the future would be affected by the performance of land market in Jinan City.

Medium exposure to commercial activities, with a certain portion in property development

Apart from public activities, SZFI is also involved in a diversified range of commercial activities that contribute part of its revenue, including sales of houses, property leasing, trading, financial investment as well as financial services. We consider SZFI's commercial business exposure to be medium, with a certain portion in property development. Moreover, these commercial activities may also entail higher operational and business risks than

public policy activities. At the same time, large amount of self-operated projects will exert capital expenditure pressure on the Company.

The Company participates in the property development business mainly through self-developed mode. As of 30 September 2023, the Company had 4 projects under construction, including residential and commercial properties, with a total investment of RMB6.0 billion and an outstanding amount of RMB1.9 billion. At the same time, the Company had one commercial housing project under planning, with a planned total investment of RMB631 million. The overall selling rate of the Company's property development business is relatively low. We estimate the Company bear relatively large pressure to reduce the number of unsold housings. Moreover, the fund balance of this business would suffer from high volatility due to the uncertainty of construction and sales progress during a downturn in the Chinese property market.

SZFI also engages in leasing business. The Company obtains leasable assets through purchase, government transfer, and self-construction. The main leasable assets are mainly office buildings, industrial parks, and affordable housing. As of 30 September 2023, the Company owned leasable assets with total available area for rent of 179.3 thousand square meters and comprehensive occupancy rate of 82.3%. However, the leasing status is more sensitive to market conditions as the properties are mostly leased to commercial tenants. Moreover, the Company's investment recovery cycle of leasable assets is long, making it more difficult to achieve fund balancing in short period of time and may expose the Company to larger investment and execution risks. We should pay close attention to the subsequent operation of the leasing business.

Trading business is the main income source of SZFI. In 2022, the Company recognized trading revenue of RMB4.1 billion, accounting for 59.1% of the total revenue. The Company adopts the demand-on-purchase and locking-in of purchase and sales spreads mode to conduct its trading business, which can generally control business risk by locking in upstream and downstream customers and product prices. The main trading product is electrolytic copper. However, the concentration risk from downstream customers is relatively high and the gross margin of the trading business is low, which makes a limited contribution to the Company's profits. The Company is also engaged in the sales of building materials. This business also adopts the demand-on-purchase mode and recognized revenue of RMB109.1 million and RMB118.4 million in 2022 and the first three quarters of 2023, respectively.

The Company conducts financial investment mainly through fund investment. As of 30 September 2023, the Company had 11 major fund investment projects with a total book value of investment amount of RMB386 million and a total paid-up capital of the same amount. The funding sources for the investment is partly from the government special fund and the Company has not yet realized any return on fund exit.

In addition, the Company expands its business to financial services to promote the development of local enterprises. The Company aims to adjust the development direction of the real economy in the region through diversified financial products. The Company's financial services include emergency loan transfer, factoring, and financial leasing. As of 30 September 2023, the outstanding amount of factoring and financial leasing was RMB711 million. However, financial services would expose the Company to certain recovery risk.

Increasing debt burden and moderate asset liquidity

SZFI's debt had increased rapidly over the past three years due to continuous investment in public projects and self-construction projects. As of 30 September 2023, the Company's total debt increased to RMB34.1 billion from RMB16.4 billion at the end of 2020, while the total capitalization ratio increased to 69.3% from 54.3%. The Company also had a relatively large short-term debt maturities, with short-term debt accounting for 48.1% of

total debt as of 30 September 2023. The ratio of cash to short-term debt was around 0.2x, indicating high short-term debt servicing pressure. We expect the Company to rely on external financing for its land acquisition and demolition, infrastructure construction and self-operated projects, and its total debt burden is expected to increase further in the next 12-18 months.

In addition, the liquidity of SZFI's assets was relatively weak. As of 30 September 2023, the Company pledged a number of assets for loans, such as land and commercial properties, with a total amount of RMB5.2 billion, accounting for approximately 33.5% of its net assets. In addition, SZFI's inventories accounted for more than 60% of its total assets. The inventories mainly include the cost of land acquisition and demolition projects and relevant infrastructure construction projects. Most of these assets were considered to have low liquidity. The relatively low asset liquidity may undermine the Company's financial flexibility.

Relatively high exposure to no-standard financing

SZFI has different financing channels such as bank loans, onshore and offshore bond issuance, and non-standard financing. The Company has good and long-term relationships with major domestic banks such as Agricultural Development Bank of China, Evergrowing Bank Co., Ltd. and Industrial Bank Co., Ltd. As at 30 September 2023, the Company had total bank facilities of RMB17.3 billion, of which the available portion was approximately RMB6.0 billion. Meanwhile, the Company has access to the onshore and offshore bond market. From 2022 to 2023, SZFI and its subsidiary issued 5 tranches of onshore bonds with total raising amount of RMB4.0 billion and reasonable coupon range from 3.25% to 4.47%. The Company also issued 2 tranches of offshore bonds in 2023, raising a total amount of USD210 million. However, the Company has a relatively high exposure to non-standard financing, which accounts for more than 30% of its total debt. The main non-standing financing products are financial leasing and trust. Non-standard financing products generally has higher financing costs and short tenor, which could increase the Company's refinancing pressure.

ESG Considerations

SZFI assumes environmental risks through its land acquisition and demolition projects and relevant 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.

SZFI bears social risks in implementing public policy initiatives through the building of public infrastructure in Shizhong District. 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.

SZFI'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 \(July 2022\)](#).

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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656