

Credit Opinion

31 October 2024

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

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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 very strong capacity and very 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; and (2) solid track record of receiving government payments.

However, the rating is constrained by the Company's (1) large short-term debt repayment pressure; (2) weak liquidity position; and (3) vulnerable funding capability with certain exposure to non-standard financing.

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
- Low exposure to commercial activities
- Solid track record of receiving government payments
- Large short-term debt repayment pressure with weak liquidity position
- Vulnerable funding capability with certain exposure to non-standard financing

Rating Sensitivities

What could upgrade the rating?

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

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 or increased exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	12.6	14.8	15.1	18.1
Total Equity (RMB billion)	7.3	7.4	7.5	7.9
Total Revenue (RMB million)	539.9	562.3	578.8	318.4
Total Debt/Total Capital (%)	32.6	40.7	39.9	37.5

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

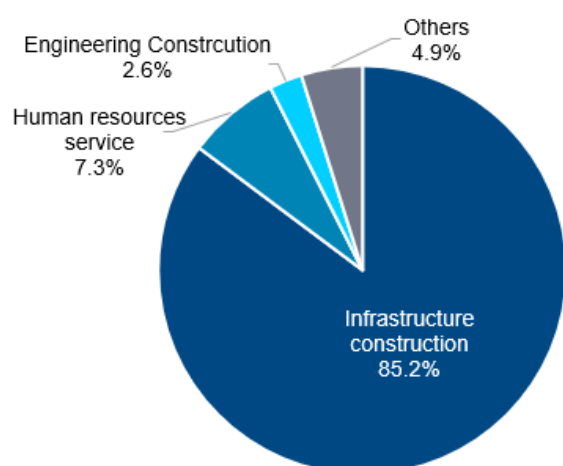
Source: Company data, CCXAP research

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 June 2024, 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 June 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

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

We believe the Lanshan District Government has very 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. Backed by its locational transportation advantages and rich mineral resources, Rizhao City has developed traditional leading industries including steel manufacturing, automobile and port-related pillar industries. In 2023, it reported a GRP of RMB239.1 billion, representing a 5.6% year-over-year ("YoY") growth. In the first half of 2024, Rizhao City's GRP increased by 5.0% YoY to RMB122.2 billion. At the same time, Rizhao City's general budgetary revenue increased to RMB19.5 billion in 2023, and tax income represented a high proportion, accounting for 73.5% of general budgetary revenue on average during the past three years. It has moderate fiscal strength and a manageable debt profile. During the past three years, its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 64.8% on average. As of end-2023, Rizhao Municipal Government's outstanding debt was RMB62.7 billion, accounting for 26.2% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Rizhao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	221.2	230.7	239.1
GRP Growth (%)	6.8	3.8	5.6
General Budgetary Revenue (RMB billion)	18.7	18.6	19.5
General Budgetary Expenditure (RMB billion)	27.1	28.9	32.0
Local Government Debt (RMB billion)	46.0	53.3	62.7

Source: Rizhao Municipal Government, CCXAP research

Lanshan District is located in the south of Rizhao City, with a total area of 778.9 square kilometers. Lanshan District's leading industries are steel, petrochemicals, wood processing, and equipment manufacturing. The service industry, with the port logistics industry as its core sector, is also experiencing fast growth. Supported by location, port and road, resource advantages, Lanshan District demonstrated ongoing economic growth for the past three years, with GRP achieving RMB60.8 billion in 2023. In the first half of 2024, Lanshan District achieved a GRP of RMB32.4 billion, with a YoY increase of 2.9%. From 2021 to 2023, the general budgetary revenue of Lanshan District decreased from RMB4.8 billion to RMB4.6 billion, which was mainly due to a reduction in tax revenue resulting from the decline in steel prices and corporate profits. Meanwhile, tax revenue has represented a significant proportion of the total general budgetary revenue, accounting for over 75.0% on average over the past three years. Lanshan District has demonstrated good financial self-sufficiency with fiscal balance ratios above 120% over the past three years. It also has a good debt profile, with government debt accounting for 14.7% of GRP as of end-2023.

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

	2021FY	2022FY	2023FY
GRP (RMB billion)	56.0	59.0	60.8
GRP Growth (%)	3.2	4.1	7.4
General Budgetary Revenue (RMB billion)	4.8	4.6	4.6
General Budgetary Expenditure (RMB billion)	2.8	3.3	3.8
Local Government Debt (RMB billion)	6.8	7.6	8.9

Source: Lanshan District Government, CCXAP research

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

RXCI is an important subsidiary of Xinglan Holdings, accounting for 50% of the total assets of Xinglan Holdings, and is mainly responsible for the major infrastructure construction, shantytown projects, water supply and school bus services in the Lanshan District. Xinglan Holdings, its parent company, is the largest LIIFC in Lanshan District by total assets. 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. Generally, the Company transfers ownership of the project to the entrusting parties after the project is completed, and will receive payments based on the total cost plus a certain mark-up in return. As of 30 June 2024, the shantytown projects under the government purchase model were

near completion, with the remaining investment amount amounting to RMB471.0 million. Meanwhile, the Company had several entrusted projects under construction, with a total investment of RMB7.2 billion and an uninvested amount of RMB3.5 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-2023, 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 started to undertake school bus service in Lanshan District in 2019. As of 30 June 2024, 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 activities

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

RXCI undertakes engineering construction projects through the open market bidding, primarily municipal engineering construction projects in Lanshan District. As of end-2023, the Company had 41 contracts on hand with a total contract amount of RMB492.2 million. However, the newly acquired contracts each year has been decreasing from 2021 to 2023, same as the revenue from this business segment. The revenue from engineering construction decreased from RMB76.0 million in 2022 to RMB15.1 million in 2023, accounting for 2.6% of the total revenue. In April 2024, the Company's major engineering construction entity, namely Rizhao Xinlanshan Municipal Engineering Co., Ltd., was transferred out, and the Company will continue to undertake the municipal engineering projects within the region through other subsidiaries. The Company also provides human resources services mainly to the government institutions and other local state-owned companies in Lanshan District, contributing stable revenue of more than RMB40 million per year. However, the gross profit margin of the human resources service business remained low for the past few years and turned negative in 2023.

RXCI is also involved in the construction and operation of self-operated projects 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, which aims to develop intelligent logistics and attract high-value companies to settle in Lanshan District. The total planned investment of the project is RMB1.1 billion, and the outstanding investment was RMB715.0 million as of 30 June 2024. 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. In 2023, RXCI continued to receive government subsidies for construction projects and water supply business, with a total amount of RMB129.1 million. With the equities transferred of some state-owned enterprises from the local government, the Company's capital reserve increased by RMB30.8 million in 2023. In addition, the Company receives repurchase payments periodically for its infrastructure

construction projects, and it received repurchase payments of more than RMB500 million for the entrusted projects in 2023. At the same time, there were some completed infrastructure construction projects await to be repurchased, with a total invested amount of RMB2.8 billion. Considering the strategic role of RXCI, we expect the Company will continue to receive support from the local government in the future.

Large short-term debt repayment pressure with weak liquidity position

RXCI's debt level has slightly decreased over the past two years. As of 30 June 2024, the Company's total debt decreased to RMB4.7 billion, compared with RMB5.1 billion at end-2022 and RMB5.0 billion at end-2023, respectively. Meanwhile, with the increase in total equity, the Company's total capitalization ratio (total debt/total capital) remained at a reasonable level and decreased steadily from 40.7% at end-2022 to 37.5% as of 30 June 2024. However, the Company is facing certain short-term debt repayment pressure. The short-term debt ratio increased from 22.5% at end-2022 to 38.2% as of 30 June 2024. As of 30 June 2024, the short-term debt was RMB1.8 billion, while the unrestricted cash was only around RMB8.4 million. We expect the Company's debt burden would remain high in the next 12 to 18 months, given its financing needs for construction projects and refinancing needs of short-term debt.

RXCI's liquidity profile is relatively weak. As of 30 June 2024, the Company's total assets mainly consist of inventories and receivables, which accounted for around 94.0% of its total assets. Specifically, 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. Moreover, RXCI and its subsidiaries have been facing tightened liquidity issue since July 2024, and their commercial bills have been overdue for multiple times. As of 30 September 2024, the outstanding overdue payments in commercial bills of RXCI and its subsidiaries was around RMB15.0 million. Meanwhile, the parent company of RXCI, Xinglan Holdings, also has commercial bills overdue of RMB58.9 million as of the same date. RXCI and Xinglan Holdings have been listed as judgement debtors because of the overdue payment of loans and construction projects. Considering the important role of the Company and Xinglan Holdings in Lanshan District, the local government would provide certain liquidity support when necessary.

Vulnerable funding capability with certain exposure to non-standard financing

RXCI's funding channels are dominated by bank loans while having certain reliance on non-standard financing products. As of 30 June 2024, around 62.8% of the Company's debt financing was provided by domestic banks. However, the Company had limited standby liquidity with few available credit facilities as of the same date. RXCI also stepped into offshore bond market to expand its financing channels. In November 2023, it issued one tranche of offshore bond, raising USD30 million with the coupon rate of 9.5%. In addition, RXCI's exposure to non-standard financing is relatively high, which accounted for around 18.6% of its total debt as of 30 June 2024. These non-standard financing products generally have high financing costs, which would reduce its financing flexibility.

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 \(July 2022\)](#).

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