

Credit Opinion

26 November 2024

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

Analyst Contacts

Christy Liu +852-2860 7127

Credit Analyst

christy_liu@ccxap.com

Eddie Li +852-2860 7130

Assistant Credit Analyst

eddie_li@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

Linyi Lanshan District Finance Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Linyi Lanshan District Finance Investment Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Linyi Lanshan District Finance Investment Group Co., Ltd. ("LSFI" or the "Company") reflects Lanshan District Government's strong capacity and 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 support reflects Lanshan District's status as the largest county-level district in Linyi City in terms of gross regional products ("GRP"), with strong economic conditions, good fiscal metrics and debt profile.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) ultimate control by the Lanshan District Government; (2) strong strategic role in the economic and industrial development in Lanshan District; and (3) track record of receiving government supports.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) medium exposure to contingent liabilities.

The stable outlook on LSFI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic importance in the economic and industrial development in Lanshan District over the next 12-18 months.

Rating Drivers

- Strong strategic role in the economic and industrial development in Lanshan District
- Track record of receiving government supports
- Moderate exposure to commercial activities
- Increasing debt burden and moderate asset liquidity
- Medium exposure to contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Lanshan 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 increased policy importance or decreased risk exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Lanshan 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 regional significance, weakened financing ability or increased risk exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	12.3	14.5	17.9
Total Equity (RMB billion)	4.8	5.0	8.4
Total Revenue (RMB billion)	1.1	1.4	1.2
Total Debt/Total Capital (%)	57.5	56.1	49.1

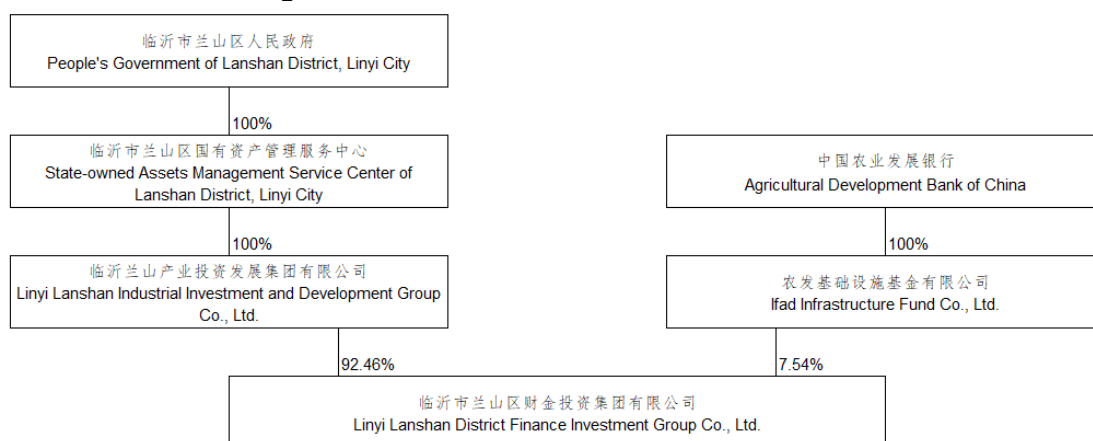
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

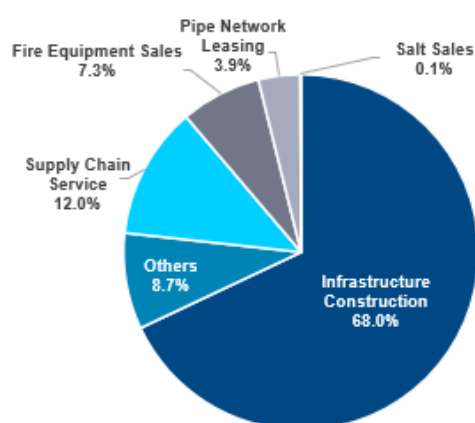
Founded in April 2018, LSFI is one of the key local infrastructure investment and financing companies ("LIIFCs") in Lanshan District, Linyi City, Shandong Province. LSFI primarily undertakes the role of infrastructure construction and operation of state-owned assets in Lanshan District. In addition, the Company is engaged in commercial activities including the development and operation of industrial parks, fire equipment and salt sales, fund investments, supply chain service, and provision of financial services such as on-lending and guaranteed businesses. As of 31 December 2023, the State-owned Assets Management Service Center of Lanshan District held 92.47% of the Company's shares through Linyi Lanshan Industrial Development Group Co., Ltd.; the remaining shares were held by Agricultural Development Infrastructure Fund Ltd. The Lanshan District Government is the ultimate owner of LSFI.

Exhibit 1. Shareholding chart as of 31 December 2023



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 Lanshan District Government has a strong capacity to provide support given its sound economic fundamentals and fiscal strength, with a relatively large operating fiscal surplus and manageable debt burden.

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. Shandong Province recorded a GRP of RMB8.7 trillion in 2022. In 2023, Shandong Province's GRP further increased to RMB9.2 trillion, a year-over-year ("YoY") increase of 6.0%. At the same time, it recorded a general budgetary revenue of RMB746.5 billion, representing a YoY increase of 5.1%.

Linyi City is the largest city by population and area in Shandong Province, with rich water and land resources. It is a pivotal central city in southern Shandong Province, situated at the intersection of the Eurasia Land Bridge's bridgehead, the Yangtze River Delta Economic Area, and the Bohai Economic Rim. Characterized by industries such as agriculture and food processing, manufacturing, logistics, and high-end chemicals, Linyi City has achieved sustained economic growth. The GRP of Linyi City increased by 6.3% YoY to RMB610.5 billion in 2023, ranking 5th among prefecture-level cities in Shandong Province. In the first three quarters of 2024, the GRP of Linyi City amounted to RMB482.6 billion, with a YoY growth rate of 5.7%. Linyi Municipal Government's

general budgetary revenue has also recorded consecutive growth for several years. However, Linyi City's fiscal self-sufficiency ability was relatively weak as its general budgetary revenue only cover around half of general budgetary expenses over the past three years. Tax revenue is a stable source of general budgetary revenue with a high portion of 77.3% on average over the past three years. As of 31 December 2023, Linyi City reported a government debt of RMB169.1 billion, accounting for 27.7% of its GRP.

Exhibit 3. Key economic and fiscal indicators of Linyi City

	2021FY	2022FY	2023FY
GRP (RMB billion)	546.6	577.9	610.5
GRP Growth (%)	8.7	4.2	6.3
General Budgetary Revenue (RMB billion)	40.9	42.0	44.6
General Budgetary Expenditure (RMB billion)	80.7	87.5	92.0
Local Government Debt (RMB billion)	125.7	146.3	169.1

Source: Statistics Bureau of Linyi City, CCXAP research

Lanshan District is located in the center of Linyi City and in the southeast of Shandong Province. It is the largest county-level district in Linyi City in terms of GRP. It has a GRP of RMB142.0 billion, which accounted for 23.3% of Linyi's GRP in 2023. Lanshan District has achieved a GRP of RMB71.3 billion in the first half of 2024, ranking first in Linyi City. It also ranked first in GRP per capita and general budgetary revenue among other administrative districts of Linyi City. Lanshan District implements the "5+5" industrial cultivation plan, accelerating the transformation and upgrading of the five leading industries namely food, wood, medicine, machinery manufacturing, and non-ferrous metals; and cultivates five emerging industries including commerce and logistics, modern finance, medical care and health, cultural creativity, and global tourism. Lanshan District has a very good fiscal profile. The fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained at a high level, with a 3-year average ratio over 150.0%, and tax contributed around 84.2% of its general budgetary revenue over the past three years. Lanshan District Government also has a manageable debt profile, with a government debt/GRP ratio of 6.7% as of 31 December 2023.

Exhibit 4. Key economic and fiscal indicators of Lanshan District

	2021FY	2022FY	2023FY
GRP (RMB billion)	133.4	135.8	142.0
GRP Growth (%)	8.3	4.2	6.0
General Budgetary Revenue (RMB billion)	11.6	11.8	12.1
General Budgetary Expenditure (RMB billion)	7.4	7.6	8.2
Local Government Debt (RMB billion)	6.2	8.1	9.5

Source: Statistics Bureau of Lanshan District, CCXAP research

Government's Willingness to Provide Support

Strong strategic role in the economic and industrial development in Lanshan District

LSFI is one of the major LIIFCs in Lanshan District that undertakes local infrastructure construction, state-owned asset operations and industrial investments. The Company is the second largest LIIFC in Lanshan District by total assets. The other two LIIFCs are Linyi City Lanshan District Urban Development and Construction Investment Group Co., Ltd. and Linyi Lanshan Development Group Co., Ltd., which mainly undertake the role of local infrastructure construction and urban renovation, respectively. Given LSFI's strategic role, we believe that support from the local government is very likely when needed.

As one of the major platforms for regional investment and development, LSFI has engaged in a large number of infrastructure construction projects including school, road, bridge and community reconstruction in the urban area of Lanshan District under the entrusted construction mode. The Company is entrusted mainly by the local government or a company owned by local residential and village committees, namely Shandong Donghe Real Estate Development Co., Ltd. (“Shandong Donghe”). Projects include the construction of road, bridge, school, and other facilities. The local government or Shandong Donghe will recognise the project settlement price after LSFI has completed the construction and development of such infrastructure projects, normally at a price that covers the construction costs incurred plus a 20% investment return. The Company has successfully delivered a series of large-scale infrastructure construction projects over the past few years. As of end-2023, the Company had 13 infrastructure projects under construction, with a total planned investment of RMB1.9 billion and uninvested amount of RMB776 million.

In addition, LSFI is the most essential entity in local state-owned asset management and industrial investments in Lanshan District. The Company manages rainwater and sewage pipe networks in 4 subdistricts of Lanshan District under a 10-year lease agreement. It is also in charge of the construction and operation of major industrial parks in Lanshan District, which largely support local economic and agricultural industrial development. We believe that the importance of LSFI to the Lanshan District Government will remain high because the cost of replacing its functional role is high and it still has strong political and financial implications for the region.

Track record of receiving government payments

LSFI has received ongoing support from the Lanshan District Government, including cash allocation, asset injection, capital injection, financial subsidies and payments for infrastructure construction projects, which could help the Company meet its policy objectives and financial obligations. Since its establishment, the local government has injected operational assets and several land resources into the Company. In 2023, the Company received capital injection from the Finance Bureau of Lanshan District including cash, assets and equities of some local SOEs, increasing the paid-in capital and capital reserve by RMB2.48 million and RMB3.0 billion, which greatly enriched the Company’s capital strength. Moreover, the local government has provided different types of operating subsidies of more than RMB200 million in 2023.

However, the government repayments for the Company’s infrastructure construction business are prolonged. As of end-2023, the total investment of the Company’s main completed projects was RMB2.5 billion, while the cumulative project repayments received was RMB1.2 billion. Nevertheless, we expect that as one of the key local state-owned enterprises in Lanshan District, the Company plays an irreplaceable role in the development and operation of the region, and the local government has a high willingness to provide support to the Company.

Moderate exposure to commercial activities

The Company’s commercial activities include the self-operated projects, fund investments, sales of fire equipment, supply chain service, and the provision of financial services such as on-lending and guaranteed businesses. Most of the Company’s commercial businesses are policy-driven which align with the local development policy of Lanshan District and facilities companies to settle in. Nevertheless, the increasing investments in commercial activities will inevitably expose the Company to higher operational and financial risks.

LSFI develops self-operated projects mainly in the Western New Town of Lanshan District, where LSFI invests in the construction of industrial parks, factories, commercial buildings and other properties, either through wholly-owned investment or through joint ventures with private-owned enterprises, and offsets its upfront investment with future income from rental or sale. For joint venture projects, LSFI is mainly responsible for the

construction phase, while its partners are responsible for the subsequent sales and leasing process of the properties. However, some of the large industrial parks were transferred to another state-owned enterprise (“SOE”) in Lanshan District in 2024 due to local state-owned assets consolidation. After the completion of equity transfer, the scale of the Company’s industrial park projects is relatively small and the completed industrial parks projects have not yet realized any sales income, with low occupancy due to the early stage of investment attraction. As of the end of 2023, the Company had one industrial park project, namely China Linyi International Grain and Oil Technology Logistics Park, which has been completed for leasing with a total invested amount of RMB500 million and a total leasable area of 86,700 square meters, of which 14,700 square meters had been leased. The Company will subsequently participate in the construction of support facilities and commercial properties in the completed industrial park.

Moreover, LSFI is engaged in industrial fund investment, financial guarantee and emergency on-lending business through its subsidiaries, most of which are in the early stage of development. For supporting the development of key industries in Linyi City, the Company, together with other SOEs, jointly invested in the Linyi Yixing New Material Industrial Park, with a completed capital contribution of RMB383 million. However, as the development of the industrial park is at its early stage, the Company has not realized any return on the investment. The Company’s financial guarantee and emergency on-lending business is mainly carried out under the cooperative relationships with local banks such as Qilu Bank Co., Ltd., and Shandong Linyi Lanshan Rural Commercial Bank Co., Ltd. However, the policy-driven business model may expose the Company to higher risks due to the concentration of assets in entities with weaker financial strength. As of the end of 2023, LSFI had conducted a total of 73 guarantee businesses with outstanding guarantees of RMB 228 million. The Company also carried out 40 emergency on-lending businesses with an outstanding loan amount of RMB725 million. In addition, the expansion in the financial service business also imposes risk to the Company in relation to credit contagion and contingent liabilities.

LSFI’s trading business is relatively volatile, including the main products of fire equipment, although it provides supplementary income. The Company is engaged in the production and sales of fire equipment through its subsidiary, which has five streamlined production lines for fire truck manufacturing, pre-painting treatment, cab modification, final assembly, and decoration. The Company customizes the production of fire equipment according to customer requirements and completes the delivery, and its customer base mainly consists of firefighting units and large SOEs in various regions. In 2023, the Company’s sales revenue of fire equipment increased significantly to RMB88.9 million from RMB42.5 million in 2022 due to the increase in market demand, but incurred a gross loss due to the increase in the cost of accessories that need to be upgraded and re-customized.

In addition, the Company started its supply chain service business in 2022. The products of the Company’s supply chain service business mainly include pet food, machinery and equipment, cement and concrete. The Company signs procurement and sales contracts with upstream suppliers and downstream customers only when the procurement costs and selling prices are confirmed with them. In 2023, the Company achieved revenue of RMB146 million from its supply chain services business. However, some of LSFI’s subsidiaries in supply chain business were transferred out in 2024, there are some uncertainties regarding the sustainability of this business sector.

Increasing debt burden and moderate asset liquidity

LSFI has an increasing debt burden from continuous business expansion. The Company’s total debt increased to RMB8.1 billion as of 31 December 2023, from RMB6.4 billion at end-2022. At the same time, the total

capitalization ratio, measured by total debt to total capital, decreased to 49.1% from 56.1% in 2022 due to the increase in the Company's capital reserve. As of 31 December 2023, the Company's short-term debt burden remained at a high level with the short-term debt accounting for around 49.1% of the total debts and the cash to short-term debt ratio was 0.2x. In addition, the Company's restricted assets are of a certain scale and mainly consist of note deposits, pledged inventories and construction in progress, which accounted for 7.0% of its total assets as of the end of 2023. Considering the capital expenditure needs of its self-operated projects, we expect that the Company will face certain capital expenditure pressure and its debt level will continue to increase over the next 12 to 18 months.

Besides, LSFI's asset liquidity was moderate as it includes a significant allocation to receivables and inventories with limited profitability. The Company's receivables are mainly from project settlement with local SOEs and government units, which accounted for 40.0% of its total assets due to a certain delay in government repayments. LSFI's other receivables contains loans to a private-owned enterprise with outstanding amount of RMB420.3 million, namely Linyi Caijin Chashan Cultural Tourism Development Co., Ltd., who is listed as judgment debtor and is involved in termination of enforcement proceedings, causing the Company facing certain recovery risk. On top of that, the Company's inventories were relatively large in scale, accounting for around 36% of its total assets. The inventories represent investment in infrastructure construction projects and land earmarked for community reconstruction projects with moderate liquidity.

Access to diversified financing channels

LSFI's investment needs could be supported by its diversified financing channels including banks, debt capital market and nonstandard financing. The Company has built a close relationship with large domestic banks, such as the Agricultural Development Bank of China, Bank of Communications, and China Construction Bank Corporation, with total bank credit facilities of RMB6.4 billion and an unutilized amount of RMB2.9 billion as of the end of 2023. The Company also has a track record of issuing onshore and offshore bonds. In 2023, the Company has issued 4 branches of offshore bonds in 2023, raising USD107.0 million in equivalent currency. Over the same period, the Company also issued two tranches of corporate bonds, raising RMB600 million. LSFI's exposure to non-standard financing is manageable, including financial leasing, accounting for around 5-10% of the total debts. Overall, given the Company's important status as a key role in the local development of Lanshan District, we expect the Company to continue to have access to stable funding from various channels.

Medium exposure to contingent liabilities

LSFI's exposure to contingent liabilities is moderate, and the credit profile is constrained by substantial external guarantees. As of 31 December 2023, the Company's external guarantee amounted to RMB2.3 billion, accounting for 27.8% of its net assets. The external guarantees were primarily provided to local state-owned companies, and we believe the risks of providing guarantees to local SOEs is still manageable, given the local government's tight control over these companies.

ESG Considerations

LSFI assumes environmental risks through its infrastructure construction projects and public services. 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 public policy in Lanshan District by conducting public infrastructure construction projects. It bears social risks as it plays as it implements public policy initiatives

by building public infrastructure in Lanshan District. In addition, as one of the vital 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.

In terms of corporate governance, the Company has established a sound and effective corporate governance structure consisting of shareholders, directors, supervisors, senior management team, and internal departments collectively and efficiently perform their duties. In addition, the Company is subject to oversight and reporting requirements of the Lanshan District Government, 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 \(July 2022\)](#).

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