

## Credit Opinion

28 November 2024

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

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## Jinan Lixia Holding Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms the long-term credit rating of Jinan Lixia Holding Group Co., Ltd. at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Jinan Lixia Holding Group Co., Ltd. ("Lixia Holding" or the "Company") reflects Lixia District Government's (1) very strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Lixia District Government's capacity to support reflects its status as the largest district by gross regional product ("GRP") in Jinan City for years, with good economic fundamentals and fiscal strengths such as large operating fiscal surplus.

The rating also reflects the local government's high willingness to support, which is based on the Company's (1) important position as the largest entity focusing on infrastructure construction and primary land development in Lixia District; (2) solid track record of receiving government payments; and (3) access to diversified funding channels.

However, the rating is constrained by the Company's (1) high exposure to commercial activities which exerts pressure on capital expenditures; and (2) high debt burden and moderate asset liquidity.

The stable outlook on Lixia Holding's rating reflects our expectation that the Lixia District Government's capacity to provide support will be stable, and the Company's characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Largest entity focusing on infrastructure construction and primary land development in Lixia District
- Solid track record of receiving government payments
- High exposure to commercial activities which exerts pressure on capital expenditures
- High debt burden and moderate asset liquidity
- Access to diversified funding channels

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Lixia 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 materially lowering exposure to risky commercial activities or improving debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Lixia 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 materially deteriorated liquidity position.

## Key Indicators

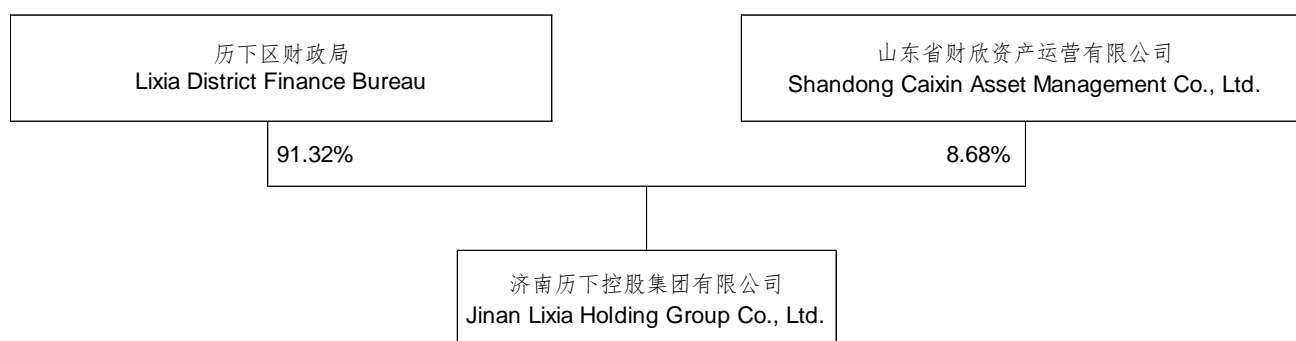
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	44.8	57.4	64.0	67.3
Total Equity (RMB billion)	4.4	11.8	12.5	11.9
Total Revenue (RMB billion)	5.6	5.0	4.4	0.5
Total Debt/Total Capital (%)	73.2	58.2	59.3	62.7

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

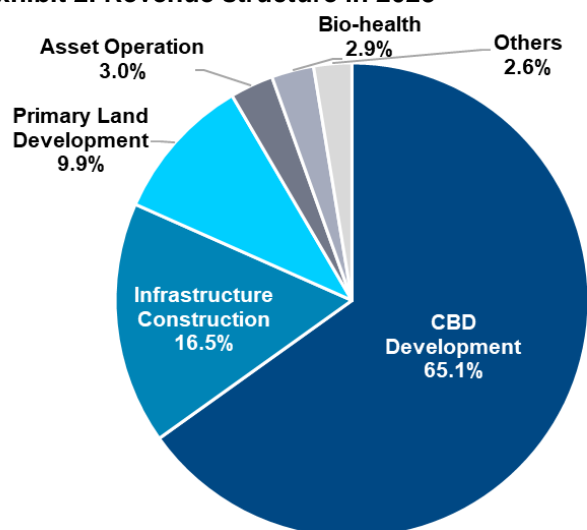
Source: Company data, CCXAP research

## Corporate Profile

Established in 2016, Lixia Holding is the largest and the most important local infrastructure investment and financing company ("LIIFC") in Lixia District, primarily undertaking municipal projects such as infrastructure construction and primary land development in Lixia District. Moreover, the Company is engaged in commercial activities including CBD development, industrial park construction and property leasing. Lixia Holding has developed into an essential entity for the social and economic development of Lixia District. As of 30 June 2024, it was 91.32% owned by Lixia District Finance Bureau and under the direct administration of Lixia District Government.

**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 local government of Lixia District has a very strong capacity to provide support given its good economic fundamentals and fiscal strengths such as a large operating fiscal surplus.

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 9<sup>th</sup> by GRP among 15 sub-provincial cities in China and ranked 2<sup>nd</sup> 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 an average self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of 79.1%. The government fund revenue of Jinan City continues to decline and may be affected by fluctuations in property market and land acquisition policies in the future. Jinan City received relatively strong

support from the higher-tier government in terms of subsidies, which serves as an important supplement to its fiscal revenue. In the first three quarters of 2024, Jinan City's GRP amounted to RMB967.5 billion, representing a year-on-year ("YoY") growth rate of 5.4%. As of 31 December 2023, the local government's outstanding debt amounted to RMB318.0 billion, accounting for 24.9% of GRP.

### Exhibit 3. 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	100.1	106.1
General Budgetary Expenditure (RMB billion)	129.3	122.6	136.5
Local Government Debt (RMB billion)	212.0	266.1	318.0

Source: Jinan Municipal Government, CCXAP research

Located in the east area of Jinan, Lixia District is the political, economic, and cultural centre of Jinan City. It focuses on key areas such as finance, headquarters economy, and business services, also acting as the financial centre of the Shandong Province. Lixia District has demonstrated an increasing economic growth in recent years. In 2023, the GRP of Lixia District increased by 6.0% YoY to RMB244.7 billion, ranking 1<sup>st</sup> among 12 districts or counties in Jinan City. In the first three quarters of 2024, Lixia District reported a GRP of RMB189.4 billion, with a YoY growth of 5.7%. Tax accounted for over 90% of the general public revenue over the past three years, which is a stable revenue source. Lixia District has a very strong fiscal balance, with a high general budgetary revenue/general budgetary expenditure ratio of 189.1% on average for the past three years. It also has a healthy government debt profile, with a government debt/GRP ratio of 2.2% as of 31 December 2023.

### Exhibit 4. Key Economic and Fiscal Indicators of the Lixia District

	2021FY	2022FY	2023FY
GRP (RMB billion)	212.4	228.3	244.7
GRP Growth (%)	7.8	4.5	6.0
General Budgetary Revenue (RMB billion)	16.9	15.8	18.8
General Budgetary Expenditure (RMB billion)	8.1	9.6	9.7
Local Government Debt (RMB billion)	0.5	2.7	5.5

Source: Lixia District Government, CCXAP research

## Government's Willingness to Provide Support

### Largest entity focusing on infrastructure construction and primary land development in Lixia District

Lixia Holding is an exclusive entity for various key infrastructure construction and primary land development projects, which are crucial to local social and economic development that benefits the general public and local employment. The other two LIIFCs in Lixia District are Jinan Gucheng City Development Co., Ltd. and Jinan Lixia City Development Group Co., Ltd., which are responsible for urban infrastructure projects in specific areas in Lixia District.

As the largest entity authorized by Lixia District Government to undertake the construction of infrastructure projects in Lixia District, Lixia Holding is committed to conduct several key public infrastructure projects such as the construction and renovation of roads, and construction of ancillary facilities, by entering into procurement agreements with the relevant government agencies or construction contracts with third-party companies. The Company also had sufficient project reserves with 167 newly signed contracts in 2023, with a total contract

value of RMB231.0 million. As of 31 December 2023, the Company had total value of contracts in hand of RMB428.4 million, with future investment of around RMB339.0 million.

Lixia Holding acts as a key player in primary land development in Lixia District in accordance with the development plans of Lixia District Government. The Company undertakes relevant construction projects under the agent construction model, including land consolidation, construction of resettlement houses, schools, and surrounding facilities, improving the public welfare of the residents in Lixia District. The Company's primary land development projects are mainly in the areas of Dingjia Village, Shengfu Area, and Liuzhiyuan Village in Lixia District. After the completion of the projects, the local government will return around 60% of the sales of the relevant land use rights in land consolidation, and pay for the construction cost of the resettlement house on an annual basis according to the government purchase agreement. As of 31 December 2023, the Company had 4 major shantytown renovation projects under construction with a total estimated investment amount of RMB15.3 billion and an uninvested amount of RMB3.8 billion.

As the essential infrastructure construction entity in the district, Lixia Holding has important strategic significance for local social and economic development. We believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **High exposure to commercial activities which exerts pressure on capital expenditures**

Lixia Holding's commercial business exposure is high, accounting for more than 30% of its total assets. The Company's commercial businesses include CBD development and leasing of commercial properties. These construction projects usually have long development periods of around 5 years, with a higher business risk. Lixia Holding's commercial activities are highly correlated with the real estate industry, which may suffer from the weak housing demands in China. Most of its commercial businesses are funded through external debt issuance, as it is more difficult for the local government to support Lixia Holding's commercial-driven activities rather than public-policy projects.

The Company's CBD development business is principally the construction and development of commercial properties including commercial housing and office buildings, which will be sold or leased out. As of end-2023, more than 80% of the completed commercial properties were sold. At the same time, the Company had 16 CBD development projects under various stages of development with total investment amount of RMB21.8 billion and uninvested amount of RMB13.0 billion. The ongoing investments in these construction projects require large capital expenditure and pose more financing pressure on the Company. Moreover, increasing investment in property development may bring more operating uncertainties and financial risks to the Company as the property sales are easily affected by the market conditions.

Lixia Holding also participates in the leasing of commercial properties, including office buildings, carparks and ancillary facilities, which were transferred by the government, purchased, acquired and rebuilt, or self-built by the Company. As of end-2023, the Company had a total leasable area of around 322.0 thousand square meters, with an overall occupancy rate of around 62.7% at the end of 2023, increasing from last year. With the increased leasable asset in 2023, the revenue from this business sector grew from RMB69.0 million in 2022 to RMB131.2 million in 2023. As of end-2023, the Company had 5 leasing projects under construction, including industrial parks, factory buildings and hospitals, with a total investment of RMB4.7 billion and an outstanding investment of RMB3.3 billion. The Company's investment properties require long holding periods, which may expose the Company to larger investment and execution risks.

Considering the large expenditure needs of its commercial activities including the salable and leasable commercial properties under construction, we expect the Company's debt level to continue to grow over the next 12-18 months.

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

Lixia Holding has a proven track record of receiving support from the local government in terms of capital injections, asset injections, and subsidies. The cash payments from the local government partly cover the financial requirements of its public-policy projects.

Since its establishment, the local government has injected cash and operating assets into the Company to help it generate recurring operating cash flow. From 2023 to 2024H1, Lixia Holding received ongoing government cash injection of around RMB271.0 million, increasing the Company's capital reserve to RMB2.9 billion and further enhancing the capital strength of Lixia Holding. Over the same period, Lixia Holding received government subsidies of RMB12.4 million to support its projects operation. As of end-2023, the Company received the payments for resettlement housing projects and the cash refund of land cost for land consolidation projects of approximately RMB24.7 billion. Furthermore, in order to support the Company's ongoing construction, the local government provided sufficient amount of special loans and bonds to Lixia Holding, recording a large scale of more than RMB3.0 billion from 2023 to 2024H1.

The magnitude and track record of these government supports indicate the government's propensity to support the Company. We believe that, as the most important state-owned enterprise in Lixia District, the Company plays an irreplaceable role in the development and operation of the district, and we expect that the local government will continue to provide strong support to the Company in times of need.

### **High debt burden and moderate asset liquidity**

Due to the continued financing for the construction projects, Lixia Holding's total debt has been growing rapidly over the past three years. As of 30 June 2024, the Company's total debt increased to RMB20.0 billion from RMB16.4 billion at end-2022, while the total capitalization ratio increased to 62.7% from 58.2%, which was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. As urban infrastructure and CBD development projects require significant capital support, we expect the Company will need additional funding from external sources to ensure ongoing development.

In addition, Lixia Holding's asset liquidity is relatively weak. As of 30 June 2024, the Company pledged a number of assets for loans, such as lands and commercial properties, with a total amount of RMB8.2 billion, accounting for around 12.1% of its total assets. Besides, Lixia Holding's inventories and investment properties accounted for more than 70% of the total assets, of which inventories were mainly construction costs of CBD development projects. Majority of these assets were considered low liquidity. The relatively weak asset liquidity may undermine the Company's financial flexibility.

### **Access to diversified funding channels**

Lixia Holding shows access to various sources of funding, including bank loans and onshore and offshore bond financing, which could partly meet its large investment needs. The majority of the Company's total debts come from bank loans and bond markets and has low proportion in non-standard products of less than 10%, indicating a relatively balanced debt structure.

Lixia Holding maintains good long-term relationships with large domestic banks. As the major entity to undertake public policy projects in Lixia District, the Company's bank credit facilities have expanded. As of 31 March 2024, the Company had total credit facilities of RMB28.3 billion, with the available portion being RMB18.7 billion. The credit facilities were provided by diversified domestic banks, including national joint-stock commercial banks and major state-owned banks such as Bank of China Limited, Industrial and Commercial Bank of China Limited, and Bank of Qingdao Co., Ltd. Lixia Holding is also an active issuer in the onshore bond capital market. From January 2023 to October 2024, the Company issued 8 domestic bonds of RMB2.4 billion, with coupon rates ranging from 2.28% to 4.1%. The Company issued two tranche of offshore USD bond, raising USD550.0 million over the same period, with the coupon rates 7.3% and 5.7%, respectively. However, due to the tightening of regulatory policy for LIIFCs, it is relatively difficult for the Company to obtain new bond financing and the bond issuance can only be used to repay maturing bonds.

Considering the Company's important status as the irreplaceable platform for infrastructure construction and primary land development projects in Lixia District, we expect Lixia Holding to maintain good access to domestic bank loans and bond markets.

## ESG Considerations

Lixia Holding assumes environmental risks through its infrastructure construction and primary land development projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

Lixia Holding bears social risks as it implements public policy initiatives by building public infrastructure in Lixia 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.

Lixia Holding's governance considerations are also material as the Company is subject to oversight by Lixia District Government and has to meet several 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 \(July 2022\)](#).



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