

Credit Opinion

10 January 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	stable

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Qingdao West Coast New Area Ocean Holdings Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Qingdao West Coast New Area Ocean Holdings Group Co., Ltd. 's long-term credit rating at A_g-, with stable outlook.

Summary

The A_g- long-term credit rating of Qingdao West Coast New Area Ocean Holdings Group Co., Ltd. ("Ocean Holding" or the "Company") reflects Qingdao West Coast New Area ("QDWC New Area") 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 the status of QDWC New Area as the 9th National New Area and the local government's strong economic strength and good fiscal metrics, with GRP exceeding RMB500 billion in 2023.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) full and direct ownership by the QDWC New Area Government; (2) key strategic role in the infrastructure construction of the QDWC New Area; (3) solid track record of receiving government payments; and (4) good access to diversified fundings.

However, the rating is constrained by the Company's (1) high exposure to commercial businesses; and (2) increasing debt burden driven by continuous investment.

The stable outlook on Ocean Holding's rating reflects our expectation that the QDWC New Area Government's capacity to provide support will be stable, and that the Company will maintain its strategic role in undertaking public policy projects in the QDWC New Area over the next 12 to 18 months.

Rating Drivers

- Key strategic role in the infrastructure construction of the QDWC New Area
- Solid track record of receiving government payments
- High exposure to commercial businesses
- Increasing debt burden driven by continuous investment
- good access to diversified fundings

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) QDWC New Area 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 lowers the exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) QDWC New Area 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, decreased government support, or weakened funding capabilities.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	131.8	159.8	191.8	207.6
Total Equity (RMB billion)	46.2	54.4	66.6	68.3
Total Revenue (RMB billion)	32.5	46.5	51.3	38.0
Total Debt/Total Capital (%)	62.3	65.2	63.5	66.2

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

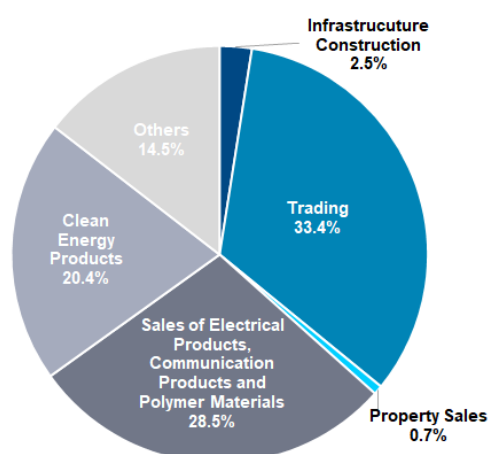
Source: Company data, CCXAP research

Corporate Profile

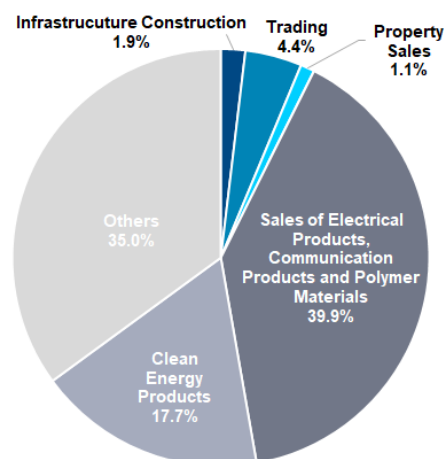
Founded in November 2018, Ocean Holding is one of the two major local infrastructure investment and financing companies ("LIIFCs") in the QDWC New Area. It was directly and wholly owned by the Qingdao West Coast New Area State-owned Assets Administration Commission ("QDWC New Area SAAC") as of 30 September 2024. Ocean Holding has undertaken major infrastructure construction and primary land consolidation projects in the QDWC New Area. It is also involved in commercial businesses including property development, trading, sales of electrical product, communication products and polymer materials, clean energy products sales, and equity fund investments.

Exhibit 1. Shareholding as of 30 September 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe the local government of the QDWC New Area has a very strong capacity to provide support given its good economic fundamentals and fiscal strengths.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported GRP of RMB1,576.0 billion in 2023, ranking first in Shandong Province and 13th among China's municipalities. In the first three quarter of 2024, Qingdao City reported a GRP of RMB1,239.9 billion, representing 5.6% YoY growth. Qingdao City also 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 end-2023, its government's debt/GRP was 23.0%.

Exhibit 4. Key economic and fiscal indicators of Qingdao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,413.6	1,492.1	1,576.0
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: Qingdao Municipal Government, CCXAP research

The QDWC New Area (Huangdao District) is the 9th national new area established with the approval of the State Council of China in 2014. In 2023, the GRP of the QDWC New Area was RMB500.3 billion, representing around 30% of Qingdao's GRP and ranking 3rd among national new areas in China after Pudong New Area and Binhai New Area. The GRP of the QDWC New Area in the first three quarters of 2024 was RMB367.8 billion, accounting for around 30% of the total GRP of Qingdao City. The QDWC New Area is an important and advanced manufacturing base and an emerging marine industry cluster. It has cultivated and formed six hundred-billion industrial clusters, namely automobile manufacturing, home appliances and electronics, petrochemicals, marine engineering, machinery and equipment, and shipping and logistics, while having more than 10 functional areas at the same time. The QDWC New Area had good fiscal balance and fair debt profile. The general budgetary revenue of QDWC New Area was recorded at RMB23.2 billion in 2023. The average general budgetary revenue/general budgetary expenditure ratio was relatively high at 96.4% on average over the past three years. Government fund revenue is an important supplement to the QDWC New Area government's financial resources. However, it declined YoY due to the strong impact of land market. The QDWC New Area also had a low direct government debt/GRP ratio of 12.3% as of 31 December 2023.

Exhibit 5. Key economic and fiscal indicators of the QDWC New Area

	2021FY	2022FY	2023FY
GRP (RMB billion)	436.9	469.2	500.3
GRP Growth (%)	10.3	4.8	6.0
General Budgetary Revenue (RMB billion)	26.1	22.3	23.2
General Budgetary Expenditure (RMB billion)	25.5	25.2	23.6
Local Government Debt (RMB billion)	38.8	53.3	61.4

Source: QDWC New Area Government, CCXAP research

Government's Willingness to Provide Support**Key strategic role in the infrastructure construction of the QDWC New Area**

Ocean Holding is one of two pilot state-owned enterprises owned by the QDWC New Area SAAC and mandated by the government to develop the QDWC New Area. The Company is the core entity engaging in local public projects such as infrastructure construction and land consolidation in QDWC New Area. The Company takes part in local infrastructure construction under agency construction model. Under the agent construction model, the Company is responsible for financing and construction of the projects assigned by the local government and receives project repayments from the government based on the total cost plus a few percentage markups after the examination of the projects. As of 30 September 2024, the Company completed 12 infrastructure construction projects, with total investment of RMB3.5 billion. From the perspective of project reserves, the Company had 10 infrastructure construction projects under construction, such as shoreline improvement, Cold Chain Logistics Base, and Lingang Industrial Park constructions, with a total investment of RMB18.0 billion and

an outstanding amount of RMB694.0 million. Most of these projects are close to completion, and future investment in infrastructure construction is expected to gradually decline.

Ocean Holding's land consolidation projects are mainly carried out by its four subsidiaries, which are responsible for the projects in different regions in QDWC New Area. The Company undertakes land consolidation projects under agency construction model by signing construction agreements with the local government and receiving government payments based on the total cost of construction, usually with certain markups in return. As of 30 September 2024, the Company completed 7 land consolidation projects, with a total investment of RMB258.0 million. The Company also had 7 land consolidation projects under construction with a total estimated investment amount of around RMB3.9 billion and an outstanding amount of RMB1.5 billion as of the same date.

Overall, the Company has a large development scope in QDWC New Area, and it is unlikely to be replaced by other entities.

Solid track record of receiving government support

As one of the core LIIFCs of QDWC New Area, Ocean Holding has a solid track record of receiving government payments. The Company has received project payments, operating subsidies, and asset and cash injections from the local government to support its investments and business operations. From 2023 to 2024Q3, the local government injected RMB2.5 billion of cash into the Company, increasing its paid-in capital from RMB2.5 billion as of end-2022 to RMB5.0 billion as of 30 September 2024. In addition, the Company's capital reserves increased from RMB24.8 billion to RMB26.5 billion over the same period, which were cash injections from the local government.

In addition, from 2023 to 2024Q3, the Company continuously received subsidies from the local government with total amount of RMB1.3 billion. Meanwhile, the Company received government project repayments of RMB4.4 billion as of 30 September 2024. We expect government support to Ocean Holding to continue to increase over the next 12 to 18 months, given its strong public policy role in QDWC New Area.

High exposure to commercial business activities

Ocean Holding's exposure to commercial businesses is relatively high with large capital expenditure needs. The Company's diversified commercial businesses include trading, property development, sales of electrical products, communication products and polymer materials, clean energy products sales, and equity and fund investment. We consider the Company's exposure to commercial businesses to be high, especially in property development during the downturn of China's real estate market. Moreover, there was certain investment risk associated with equity investments, which tend to have a long return cycle.

Ocean Holding engages in property development in QDWC New Area, including residential housing and commercial buildings. The Company mainly develops these projects by themselves. As of 30 September 2024, the Company had completed 17 property development projects, with a total investment of RMB6.7 billion, most of which had been sold or leased out. Meanwhile, the Company had 4 major property projects under construction with a total investment of RMB1.9 billion and an outstanding investment of RMB383.0 million. These commercial projects are subject to changes in the property market, and the subsequent project development and income may experience higher volatility, particularly during the downturn in China's property market. In 2023, revenue from property development fell sharply to RMB360.6 million from RMB764.4 million in 2022, mainly due to the downturn in the property market and a reduction in new developments projects.

Ocean Holding's trading products include building materials, coal, rubber, non-ferrous metals and steel, which generated considerable amount of income to the Company but earned a small profit margin. The Company adopts demand-on-purchase and self-operated modes for its trading business. Under demand on purchase mode, the Company confirms the volumes and prices with downstream customers before placing orders from upstream customers. While under self-operated mode, Ocean Holding makes procurement first and stores the products in the warehouse, and the Company may bear the inventory risk and price risk. The concentration risk from upstream and downstream customers are relatively high, with the top 5 suppliers and customers accounting for around 50% of the total procurement and the total sales.

The Company's electronical products, communication products and polymer materials sales businesses were acquired through the acquisition of a listed company in 2020, namely Zhejiang Wanma Co., Ltd ("Wanma", Stock Code: 002276.SZ), whose business mainly involves the sales of power cables, communication cables, and charging piles. The revenue from this business sector increased from RMB14.2 billion in 2022 to RMB14.6 billion in 2023, and generated a relatively large proportion of gross profit to the Company. However, the increasing sales have generated a relatively large proportion of accounts receivables to Wanma. As of 30 September 2024, Wanma's account receivables accounted for around 37.8% of its total assets. Meanwhile, Wanma has two projects under construction, including equipment industrial park construction and environmentally friendly cable polymer materials project, with a total investment of RMB3.0 billion, which are expected to further increase the Company's revenue scale and profitability in the future. In 2023, the Company received RMB12.4 million of dividends from Wanma.

Another listed subsidiary, ChengZhi Shareholding Co., Ltd. ("Chengzhi", Stock Code: 000990.SZ), is responsible for the Company's clean energy products sales business. The business focuses on providing clean energy to the chemical enterprises. Chengzhi mainly uses coal to produce clean energy, making it vulnerable to changes in the international energy market, and resulting a high degree of uncertainty in the profitability of the business in the future. As of 30 September 2024, the business had two clean energy projects under construction, with a total estimated investment of RMB5.3 billion and uninvested amount of RMB3.7 billion. Upon completion, the capacity of the business will increase further. The Company received dividends from Chengzhi totaling of RMB41.2 million in 2023.

In addition, the Company conducts equity investment through equity funds and direct investment, focusing on local emerging industries such as new materials, marine biomedicine, and cultural tourism and health care industries. Supported by the industrial development of QDWC New Area, Ocean Holding's equity investments continue to grow. As at the end of the third quarter of 2024, other non-current financial assets amounted to RMB4.7 billion. The Company plans to exit its investments through IPO listing or project repurchases. The Company made some equity investment transfer from 2023 to 2024Q3, realizing gains of more than RMB80 million. However, most of Ocean Holding's investments are at the initial investment stage which requires a long holding period, which may expose the Company to larger investment and execution risks.

Increasing debt burden driven by continuous investment

Ocean Holding's debt had grown rapidly over the past three years due to continuous investment in infrastructure construction and property development. As of 30 September 2024, the Company's total debt increased to RMB123.4 billion from RMB93.8 billion at end-2022. The Company's capitalization ratio remained at a relatively high level of around 66.2% as of the same date. In addition, the Company had a relatively high short-term debt burden, mainly bank loans and bonds, with short-term debt representing 44.4% of total debt at the end of September 2024. The cash to short-term debt ratio was around 0.3x, indicating its cash balance was insufficient

to cover its short-term debt. We expect the Company may rely on external financing for its future infrastructure construction, land consolidation, and property development projects, and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Moreover, the liquidity of the Company's assets was moderate. As of 30 September 2024, receivables, inventories, contract assets, investment property, and construction in progress accounted for approximately 58.7% of total assets. The accounts receivable is mainly mutual payment, construction payment and factoring payment. The inventories and construction in progress are mainly cost of infrastructure construction and self-construction projects. The Company's investment properties are mainly industrial parks, office buildings and other rental housing. All these assets were considered low liquidity which may undermine the Company's financial flexibility. In addition, the acquisition of Wanma and Chengzhi has formed a large amount of goodwill. The goodwill is at risk of impairment if the future operation of the acquired assets fail to meet expectations. Meanwhile, the total restricted assets were RMB19.6 billion which accounted for 10.8% of total assets as of 31 March 2024, of which investment property was the largest component.

Good access to diversified fundings

Ocean Holding has multiple financing channels to support its operations and investments, including bank loans, onshore and offshore bond issuance, which can partially relieve the pressure on debt repayment and capital expenditure. It maintains good relationships with joint-stock commercial banks and large state-owned commercial banks. As of 30 September 2024, the Company had a total credit facility of RMB122.1 billion from banks, with an unused portion of RMB57.9 billion.

The Company also has good access to the onshore and offshore debt capital markets. It has issued different financial products in the onshore bond market such as commercial papers, MTNs, private placement bond, and PPN. For example, in July 2024, the Company issued a five-year private placement bond with a total amount of RMB500 million and a coupon rate of 2.69%. The Company also issued one tranche of offshore bond, raising RMB1.0 billion. We consider Ocean Holding's exposure to non-standard financing was controllable, accounting for around 15% of total debt as of 30 September 2024.

ESG Considerations

Ocean Holding 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.

Ocean Holding bears social risks in implementing public policy initiatives through the building of public infrastructure in QDWC New Area. 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.

Ocean Holding'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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer comparison

	Qingdao West Coast New Area Ocean Holdings Group Co., Ltd.	Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.
Long-Term Credit Rating	Ag-	Ag-
Shareholder	Qingdao West Coast New Area State-owned Assets Administration Commission (100%)	Qingdao West Coast New Area State-owned Assets Administration Commission (100%)
Positioning	Key entity to carry out major infrastructure construction and primary land consolidation projects in the QDWC New Area.	Key entity to focus on the provision of major infrastructure construction, resettlement housing and educational projects in the QDWC New Area
Total Asset (RMB billion)	191.8	234.9
Total Equity (RMB billion)	66.6	63.9
Total Revenue (RMB billion)	51.3	49.5
Total Debt/Total Capital (%)	63.5	69.2

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company information, CCXAP research

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