

## Credit Opinion

17 January 2025

### Ratings

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

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## Pingdu City Development Group Co Ltd

### Surveillance credit rating report

**CCXAP affirms Pingdu City Development Group Co Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Pingdu City Development Group Co Ltd. ("PDCD" or the "Company") reflects Pingdu City Government's strong capacity and extremely 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 Pingdu City as the advanced manufacturing base in northern part of Qingdao City and the continued economic growth of Pingdu City, but constrained by moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) pivotal role in infrastructure construction and state-owned asset operation in Pingdu City; (2) good track record of receiving government supports; and (3) good access to funding.

However, the rating is constrained by the Company's (1) moderate risk to commercial businesses with relatively high investment pressure; (2) increasing debt burden driven by capital expenditures on construction projects; and (3) relatively weak asset liquidity and profitability.

The stable outlook on PDCD'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 role in infrastructure construction and state-owned asset operation of Pingdu City over the next 12 to 18 months.

## Rating Drivers

- Pivotal role in infrastructure construction and state-owned asset operation in Pingdu City
- Good track record of receiving government supports
- Moderate risk to commercial businesses with relatively high investment pressure
- Increasing debt burden driven by capital expenditures on construction projects
- Good access to funding

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Pingdu City Government's capacity to provide support strengthens; and (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) Pingdu City 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 financing capabilities.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	50.2	53.5	57.3	60.7
Total Equity (RMB billion)	41.0	41.8	42.2	42.5
Total Revenue (RMB billion)	2.3	2.3	2.4	1.5
Total Debt/Total Capital (%)	11.4	17.3	21.5	26.0

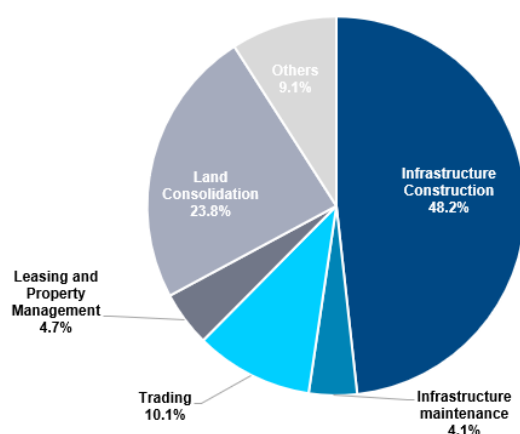
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Founded in June 2018, PDCD is one of the key local infrastructure investment and financing companies ("LIIFCs") in Pingdu City. The Company is mainly responsible for infrastructure construction and maintenance, land consolidation, urban renewal in the southern new area and western new city of Pingdu City. The Company also provides essential public services in Pingdu City, such as water supply and bus operation. In addition, PDCD is involved in commercial businesses including industrial parks construction, property leasing, as well as trading. As of 30 September 2024, the Company was directly and wholly owned by Pingdu State-owned Assets Management Service Centre.

### Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Pingdu City Government has a strong capacity to provide support given the status of Pingdu City as the advanced manufacturing base in northern part of Qingdao City and the continued economic growth of Pingdu City, but constrained by moderate fiscal metrics.

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 a GRP of RMB1.6 trillion in 2023, increasing by 5.9% year-over-year ("YoY") and ranking 1<sup>st</sup> among all prefecture-level cities in Shandong Province and 13<sup>th</sup> among all municipalities in China. In the first three quarters of 2024, Qingdao City's GRP amounted to RMB1.2 trillion, with a YoY growth rate of 5.6%. 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, the local government's direct debt increased to RMB362.0 billion, accounting for 23.0% of GRP.

### Exhibit 2. 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

Pingdu City is the largest county-level city in Shandong Province in terms of area, accounting for around 30% of the total area of Qingdao City. As the advanced manufacturing base in northern part of Qingdao City, Pingdu City has established four pillar industries, including intelligent home appliance, high-end chemicals, food and beverages and high-end equipment, and three strategic emerging industry systems, including new energy, new

materials, and biotechnology. Supporting by its solid industrial foundation, Pingdu City recorded a continuous economic growth over the past three years. With the continuous development of the regional economy, Pingdu City's GRP increased by 5.2% to RMB87.6 billion in 2023. In 2023, the local government's general budgetary revenue increased to RMB6.6 billion from RMB 6.1 billion in 2022, while tax revenue rising to RMB4.2 billion from RMB3.3 billion. However, Pingdu City's fiscal metrics improved but remained moderate. Its general budgetary revenue covered around 55% of its general budgetary expenditure over the past three years, indicating a high reliance on high-tier government support. Meanwhile, tax revenue averaged about 64.4% of its general budgetary revenue over the same period. As of end-2023, Pingdu City Government's outstanding direct debt increased to RMB15.5 billion, accounting for about 17.7% of GRP.

### Exhibit 3. Key economic and fiscal indicators of Pingdu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	82.1	84.6	87.6
GRP Growth (%)	9.7	2.3	5.2
General Budgetary Revenue (RMB billion)	6.6	6.1	6.6
General Budgetary Expenditure (RMB billion)	11.7	11.3	12.3
Local Government Debt (RMB billion)	10.6	13.2	15.5

Source: Pingdu City Government, CCXAP research

### Government's Willingness to Provide Support

#### Pivotal role in infrastructure construction and state-owned asset operation in Pingdu City

As one of the core LIIFCs of Pingdu City, PDCD was mainly involved in local public projects such as infrastructure construction and land consolidation in the western and southern new areas of Pingdu City. As of 30 September 2024, the Company has completed 7 infrastructure projects with a total investment of RMB11.7 billion, mainly including water conservancy projects, industrial park infrastructure support projects and infrastructure upgrading projects, benefiting the social welfare of the citizens. However, the Company has lagged in revenue recognition progress and payment collection, with realized income of RMB6.0 billion and payments received of RMB4.4 billion as of 30 September 2024. As of the same date, the Company had 4 projects under construction with a total investment of approximately RMB1.3 billion and an uninvested amount of RMB1.1 billion. Meanwhile, the Company had 3 projects under planning with a total planned investment of RMB341.0 million. The Company has sufficient project reserves to support stability and sustainability of the infrastructure construction business, but it also exerts certain investment pressure.

PDCD also participated in the infrastructure maintenance business in Pingdu City, covering a total of 217 items, such as water conservancy facilities, watercourse and roads, with a management period from 1 August 2018 to 31 August 2028, and a management fee of RMB100.0 million per year. As of 30 September 2024, the infrastructure maintenance business has received the project repayments accumulated to RMB417.0 million, bringing supplementary revenue to the Company.

Moreover, PDCD also undertakes land consolidation projects through agent construction model and is responsible for the resettlement housing construction on the consolidated land parcels. Under the agent construction model, the Company signs construction agreements with Finance Bureau of Pingdu City or local state-owned enterprise ("SOE"), the entrusting parties will pay the total cost plus generally 15% markups after examining the projects. As at 30 September 2024, the Company had 7 land consolidation projects (including resettlement housing construction) under construction, with a total estimated investment of approximately RMB11.5 billion and an outstanding amount of RMB4.6 billion.

### **Importance role in provision of essential public services**

PDCD provides essential public services in Pingdu City such as water supply and bus operation. PDCD acquired the majority of the water supply business in Pingdu City through acquisitions and government asset transfers in 2021. The Company's water supply business covers most of Pingdu City (excluding Nancun Town) with a degree of monopoly and sustainability. As of 30 September 2024, the Company had 11 water plants with a total water supply capacity of 142.0 thousand tons per day. In addition, there is one water plant expansion project under construction with an estimated investment of RMB480.0 million and an outstanding amount of RMB234.0 million as of 30 September 2024. After completion, this project will further increase the Company's water supply capacity by 60 thousand tons per day.

The Company is also engaged in bus operation business. As of 30 September 2024, the Company operated 326 buses with 14 urban bus routes, with a total route length of 250.8 kilometers. Due to the public welfare characteristics of the bus operation business, the gross profit margin has been negative, with a strong reliance on government subsidies over the past few years. In the first three quarters of 2024, the Company received a total of RMB93.9 million in government subsidies for bus operations. We expect that the Company will continue to receive relevant government subsidies to support its public services in the future.

Overall, PDCD has a large scope for development and a strong capacity for business sustainability in Pingdu City, as well as an essential role in the provision of public services. In our view, the Company is unlikely to be replaced by other local SOEs in the foreseeable future.

### **Good track record of receiving government support**

As a pivotal infrastructure construction and state-owned asset operation entity in Pingdu City, PDCD has a good track record of receiving government support. The Company has received project payments, operating subsidies, and asset and cash injections from the local government to support its business operations. From 2023 to 2024Q3, the local government further injected RMB325.5 million of cash into the Company, increasing its paid-in capital to RMB1.3 billion at end-September 2024. Over the same period, the Company continuously received subsidies from the local government with total amount of RMB314.5 million. Meanwhile, from 2023 to 2024Q3, the Company received special bond from local government with total amount of around RMB730.0 million to support its infrastructure construction and land consolidation business. In addition, PDCD received ongoing project repayments from local government, with a total amount of RMB1.1 billion as of 30 September 2024. Given PDCD's strong public policy role and large scale of public projects under construction and planning, we expect local government would continuous to provide support to the Company over the next 12 to 18 months.

### **Moderate risk to commercial businesses with relatively high investment pressure**

Apart from public activities, PDCD is also involved in a diversified range of commercial activities that contribute part of its revenue, mainly including property leasing and trading. These commercial activities may involve higher operational and business risks than public policy activities. At the same time, large amount of self-operated projects will lead to capital expenditure pressure. We consider PDCD's commercial risk to be moderate because some of commercial assets are transferred by the government, such as sand mining rights, and the majority of its commercial activities are policy-driven, aimed at promoting local industry and economic development.

PDCD engaged in leasing business mainly through its self-construction projects and purchased leasehold assets. The main leasable assets are industrial parks, schools, office buildings, as well as welfare center. The

lessees are mainly enterprises related to the pillar industries of Pingdu City to promote local urban development, as well as local government agencies. As of 30 September 2024, the Company owned leasable assets with total available area for rent of 702.2 thousand square meters and comprehensive occupancy rate of around 63.1%. The revenue of leasing and property business increased significantly from RMB57.0 million in 2022 to RMB111.0 million in 2023, owing to the increase in rental area and property management income. As of 30 September 2024, there were 6 leasable projects under construction and planning, with a total investment amount of approximately RMB5.4 billion and an uninvested amount of RMB4.2 billion. The major projects are industrial parks, hotels, and commercial buildings. We expect the leasing revenue to continue to increase in the future as number of leasable assets will increase. However, the large uninvested amount of construction projects would bring relatively large capital expenditure pressure to the Company. Moreover, the operating income of leasing business is closely related to local economic development, which is subject to the fluctuation of property leasing market demand.

In addition, the Company adopts demand-on-purchase mode to conduct trading business. Under demand on purchase mode, the Company confirms the volumes and prices with downstream customers before placing orders from upstream customers. The main trading products include smelting products of ferrous metals, non-metallic mineral products, and plastic products. However, this business faces relatively high concentration risk, as its top 5 customers accounted for 93.0% of sales in 2023.

### **Increasing debt burden driven by capital expenditures on construction projects**

PDCD's debt has grown rapidly over the past three years due to continuous investment in infrastructure construction and self-construction projects. As of 30 September 2024, the Company's total debt increased to RMB14.9 billion from RMB8.7 billion at end-2022, and its capitalization ratio maintained at a reasonable level of 26.0% at end-September 2024. Meanwhile, the Company has a certain amount of short-term debt, which amounted to RMB3.9 billion as of 30 September 2024, accounting for 26.2% of total debt. The cash to short-term debt ratio was around 0.8x indicating a certain short-term debt pressure. Considering the relatively slow revenue recognition progress for completed projects and prolonged payment progress, as well as the large number of uninvested amounts in projects, we estimate the Company will continue to rely on external financing to support its business and that its total debt will further increase over the next 12-18 months.

In addition, PDCD's asset liquidity was relatively weak. As of 30 September 2024, PDCD's intangible assets, inventories, investment real estates, and other receivables accounted for 83.0% of the total assets. Intangible assets accounted for more than one-third of the total assets, which were mainly sand mining rights and water tariff rights.

### **Good access to funding**

PDCD has a good access to financing channels such as bank loans, onshore and offshore bond issuance, and non-standard financing. Bank loans contribute the most of the debt, which accounted for more than half of the debts as of 30 September 2024. The Company maintains good and long-term relationships with large domestic banks such as Agricultural Development Bank of China, Industrial and Commercial Bank of China Limited, and Agricultural Bank of China Limited. As of 30 September 2024, the Company had total bank facilities of RMB9.7 billion, with the available portion being around RMB1.3 billion. The Company also has a track record for fund-raising activities in onshore and offshore debt capital markets. From 2023 to 2024, the Company issued 4 tranches of onshore bonds and 3 tranches of offshore bonds raising RMB3.0 billion and USD240.0 million respectively. In addition, PDCD's exposure to non-standard financing was controllable, accounting for less than 10% of total debt as of 30 September 2024.

## ESG Considerations

PDCD 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.

PDCD bears social risks in implementing public policy initiatives through the building of public infrastructure in Pingdu City. 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.

PDCD'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.

## Structural Consideration

PDCD's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its important role in infrastructure construction and state-owned asset operation of Pingdu City, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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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