CCXAP assigns first-time long-term credit rating of BBB_g- to Linyi Luozhuang Finance Investment Group Co., Ltd., with stable outlook.

Hong Kong, 14 November 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of BBB_g- to Linyi Luozhuang Finance Investment Group Co., Ltd. ("LYFI" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of LYFI reflects the Luozhuang District Government's strong capacity to provide support, and the local government's very high willingness to support, based on our assessment of the Company's characteristics. Our assessment of the local government's capacity to provide support reflects Luozhuang District's sound economic fundamentals and fiscal strength, with a manageable debt burden.

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 in Luozhuang District; and (2) track record of receiving government support. However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; (2) fast growing debt with high short-term debt burden; (3) tight liquidity position with moderate funding capability; and (4) medium exposure to contingent risk from external guarantees.

Corporate Profile

Established in 2017, LYFI is one of the essential local infrastructure investment and financing companies ("LIIFCs") in Luozhuang District, Linyi City. It is principally responsible for infrastructure construction in Luozhuang District. The Company also developed a range of commercial activities to extend its operation scale, including trading, property development, leasing, and self-operated projects. In June 2024, to promote the integration and high-quality development of state-owned enterprises, the State-owned Assets Management and Service Center of Luozhuang District, Linyi City ("Luozhuang SAMSC") transferred 100% of its shares in LYFI to Shandong Xingluo Investment Holding Co., Ltd. ("Xingluo Holdings"), which is a wholly-owned company of Luozhuang SAMSC. Luozuang SAMSC remained as the actual controller of the Company.

Rating Rationale

Credit Strengths

Essential role in infrastructure construction in Luozhuang District. LYFI is one of the important infrastructure construction entities in Luozhuang District, having a clear and sustained functional position. LYFI conducts infrastructure construction projects through entrusted management model. The substantial project reserve ensures the Company's regional importance and the sustainability of its construction business.

Track record of receiving government support. As the important infrastructure construction entity, LYFI has a close relationship with the local government and has a track record of receiving government support, including asset injections and financial subsidies. Positioned as

a major constructor of essential public infrastructure, LYFI has played a pivotal role in the regional construction, and the robust project reserve helped to maintain its functionality. We believe that the local government will continue to provide support to LYFI over the next 12 to 18 months.

Credit Challenges

Moderate exposure to commercial activities. In addition to infrastructure construction, LYFI is engaged in a range of commercial activities, such as trading, property development, leasing, and self-operated projects. The Company's exposure to commercial activities is expected to be moderate, which accounted for approximately 20% of its total assets.

Fast growing debt with high short-term debt burden. LYFI has shown fast debt growth over the past three years, dedicating to the investment of infrastructure construction and self-operated projects. In addition, LYFI bears high short-term debt burden. As of end-2023, the Company's short-term debt was RMB2.5 billion, accounting for 80.0% of the total debt, while the unrestricted cash was only RMB15.4 million. Meanwhile, considering the significant investment needs for the projects under construction and planning, we anticipate the total debt will continue to grow over the next 12-18 months.

Tight liquidity position with moderate funding capability. LYFI's assets mainly consist of receivables, inventories, and intangible assets with low liquidity, accounting for more than 80% of the total assets. Meanwhile, LYFI has moderate access to funding. The Company's exposure to non-standard financing was relatively large, accounting for around 15.2% of the total debt.

Medium exposure to contingent risk from external guarantees. The credit profile of LYFI is constrained by its external guarantees, which could potentially increase its repayment obligations. In particular, the majority of these guarantees were provided to other local state-owned enterprises. In the event of a credit event in the region, the Company may be exposed to certain contingent liability risks.

Rating Outlook

The stable outlook on LYFI's rating reflects our expectation that the Luozhuang District Government's capacity to provide support will remain stable, and the Company will maintain its important position in the infrastructure construction of Luozhuang District over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability 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 improved liquidity position or diversified financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as materially increased exposure to risky commercial activities or a deterioration in its debt management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

Regulatory Disclosures

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