

CCXAP assigns first-time long-term credit rating of BBB_g- to Dongying Kenli District Financial Development Group Co., Ltd., with stable outlook.

Hong Kong, 17 December 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Dongying Kenli District Financial Development Group Co., Ltd. (“KLFD” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of KLFD reflects the Kenli District Government’s (1) relatively 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 the local government’s capacity to provide support reflects Kenli District’s high gross regional products (“GRP”) growth rate, with relatively good fiscal balancing capacity.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) status as the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Kenli District; and (2) position in infrastructure construction with clear and strong regional importance in Kenli District. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate funding capability; and (3) high contingent liabilities risk caused by external guarantee for private-owned enterprises.

Corporate Profile

Founded in 2020, KLFD is one of the key local LIIFCs in Kenli District, Dongying City. The Company undertakes the role of infrastructure construction in the Xicheng Area and the Economic Development Zone in Kenli District. It also engages in commercial activities such as leasing, commodity sales and human resource service. As of 30 September 2024, KLFD was wholly owned and controlled by the State-owned Assets Management Service Centre of Kenli District, Dongying City.

Rating Rationale

Credit Strengths

The largest local LIIFC by total assets in Kenli District. There are three major first-level LIIFCs in Kenli District, including KLFD, Dongying Kenli District Urban Development Group Co., Ltd. (“KLUD”), and Dongying Kenli District Natural Resources Comprehensive Development Group Co., Ltd. (“KLNR”), and each of them has a clear functional division under the local government’s authorization. KLFD is the largest in terms of total assets as at end-2023 and the major infrastructure construction and state-owned asset operation entity, covering infrastructure construction projects mainly in Xicheng Area and the Economic Development Zone in Kenli District.

Responsible for infrastructure construction with clear and strong regional importance in Kenli District. Along with the development of Kenli District, KLFD has undertaken several major infrastructure construction projects in the area. The Company is primarily responsible for

the projects such as the rehabilitation of public services and the treatment of water sources, which are closely linked to livelihoods in Kenli District.

Credit Challenges

Medium exposure to commercial activities. KLFD's commercial activities covers leasing, commodity sales, human resource service, security service and emergency transfer loan businesses. While the commercial activities generate supplemental income, they may pose higher operational and business risks than its infrastructure construction businesses. We estimated the Company's exposure to commercial activities is medium, which accounted for around 15%-20% of total assets.

Moderate funding capability. KLFD's access to finance is mainly through bank loans and non-standard products, the 95% of which are bank loans. KLFD has maintained good relationships with policy banks, state-owned commercial banks, and regional commercial banks. KLFD also had exposure to non-standard financing products, representing for around 5% of the total debt.

High contingent liability risk caused by external guarantees for private-owned enterprises. KLFD bears high contingent risk resulting from large external guarantees, which includes guarantees to private-owned enterprises. Moreover, some of the Company's guarantors were involved in negative public opinion. The Company has plans for managing contingent risk, such as establishing the re-guarantee mechanism and implementing counter-guarantee measures. It also limits the absolute amount of external guarantees.

Rating Outlook

The stable outlook on KLFD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company's characteristics such as its important role in the infrastructure construction of Kenli District will remain unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to support, such as reduced exposure to risky commercial activities, and improved financing capability.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, deteriorated debt management, or decreased government payments.



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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