

## **CCXAP affirms Shandong Luzhong Investment Co., Ltd.’s long-term credit rating at BBB<sub>g-</sub>, with stable outlook.**

Hong Kong, 14 April, 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Shandong Luzhong Investment Co., Ltd. (“SDLZ” or the “Company”) at BBB<sub>g-</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of SDLZ reflects Yiyuan County Government’s (1) relatively strong capacity to support, and (2) extremely high willingness to support based on our assessment of the Company’s characteristics. Our assessment of Yiyuan County Government’s capacity to provide support reflects its location advantage in Zibo City with steady economic growth, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in local economic development and infrastructure construction in Yiyuan County; and (2) good track record of receiving government payments. However, the rating is constrained by its (1) increasing exposure to commercial activities; (2) rising investment needs that will heighten its debt leverage; and (3) moderate funding access.

### **Corporate Profile**

Founded in 2016, SDLZ is one of the major local state-owned enterprises that is responsible for local investment and infrastructure construction in Yiyuan County. The Company also diversified into other commercial business, including medical glass bottle sales, self-operated construction, commodity sales, and photovoltaic power generation business. SDLZ is the largest shareholder of Shandong Pharmaceutical Glass Co., Ltd (“SDPG”) (Stock Code: 600529.SH), which is a leading pharmaceutical glass packaging manufacturer in China and headquarter in Yiyuan County. As of 30 September 2024, the Company is owned and controlled by the Finance Bureau of Yiyuan County (“Yiyuan Finance Bureau”) through Shandong Luzhong Holding Group Co., Ltd.

### **Rating Rationale**

#### **Credit Strengths**

**Important role in local economic development and infrastructure construction in Yiyuan County.** SDLZ is one of the major local state-owned enterprises in Yiyuan County and undertakes local infrastructure construction and industrial investments in Yiyuan County. SDLZ’s infrastructure projects are crucial to local social and economic development that benefits the general public and local employment. We believe that the Company will maintain an important position in the public policy projects in Yiyuan County and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Good track record of receiving government payments.** SDLZ has a proven track record of receiving support from the local government in terms of capital injections, project payment, and subsidies. We expect that, as the key local state-owned enterprise in Yiyuan County, the

Company plays an irreplaceable role in the development and operation of the region, and will continue to receive government support over the next 12 to 18 months.

### Credit Challenges

**Increasing exposure to commercial activities.** SDLZ participates in different commercial activities, including medical glass bottle sales and commodity sales business. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its public-policy businesses. We consider that the Company's risk exposure to commercial activities is low but rising as SDLZ increasing its investment in self-operated projects.

**Increasing debt burden with short-term debt pressure.** Due to the continuous investment in infrastructure construction projects, SDLZ's total debt has been growing over the past three years. Moreover, the Company is exposed to certain short-term debt repayment pressure. As of 30 September 2024, the cash to short-term debt ratio was 0.5x after excluding restricted cash, which could not fully cover the short-term debt.

**Moderate funding access.** SDLZ had access to various sources of funding, including bank loans, onshore and offshore bond financing and non-standard financing. However, the funding sources of the Company were mainly from regional banks in Shandong Province. As of 30 September 2024, the Company had total bank credit facilities of RMB2.4 billion, with an unutilized portion of RMB1.3 billion.

### Rating Outlook

The stable outlook on SDLZ's rating reflects our expectation that the Yiyuan County Government's capacity to provide support will remain stable, and the Company will maintain its importance in the development of Yiyuan County over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Yiyuan County 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 improved refinancing ability.

#### What could downgrade the rating?

The rating could be downgraded if (1) Yiyuan County 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 deteriorated 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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