

## **CCXAP affirms Linyi Lanshan District Finance Investment Group Co., Ltd.'s long-term credit rating at BBB<sub>g-</sub>, with stable outlook.**

Hong Kong, 30 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Linyi Lanshan District Finance Investment Group Co., Ltd. (“LSFI” or the “Company”) at BBB<sub>g-</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of Linyi Lanshan District Finance Investment Group Co., Ltd. (“LSFI” or the “Company”) reflects Lanshan District Government's strong capacity and high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of Lanshan District Government's capacity to support reflects Lanshan District's status as the largest county-level district in Linyi City in terms of gross regional products (“GRP”), with strong economic conditions, good fiscal metrics and debt profile.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) ultimate control by the Lanshan District Government; (2) strong strategic role in the economic and industrial development in Lanshan District; and (3) track record of receiving government supports. However, the Company's rating is constrained by its (1) high business risk related to property and financial service segments; (2) moderate exposure to commercial activities exerts pressure on capital expenditure; and (3) increasing debt burden.

### **Corporate Profile**

Founded in April 2018, LSFI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Lanshan District, Linyi City, Shandong Province. It is also the key local state-owned enterprise that undertakes the role of infrastructure construction and operation of state-owned assets in Lanshan District. In addition, the Company is engaged in commercial activities including the development and operation of industrial parks, fire equipment and salt sales, fund investments, supply chain service, and provision of financial services such as on-lending and guaranteed businesses. The Lanshan District Government is the ultimate owner of LSFI. As of 30 September 2023, the State-owned Assets Management Service Center of Lanshan District held 92.47% of the Company's shares through Linyi Lanshan Industrial Development Group Co., Ltd.; the remaining shares were held by Agricultural Development Infrastructure Fund Ltd.

### **Rating Rationale**

#### **Credit Strengths**

**Strong strategic role in the economic and industrial development in Lanshan District.** LSFI is the second largest LIIFC in Lanshan District by total assets, undertaking local infrastructure construction, state-owned asset operations and local industrial investments. LSFI is engaged in the infrastructure construction business through the entrusted construction model. In addition, LSFI is the most essential entity in local state-owned asset management and industrial investments in Lanshan District.

**Track record of receiving government payments.** LSFI has a good record of receiving recurring support from the Lanshan District Government, including operating subsidies, capital and asset injections, and payments for infrastructure construction projects, which could help the Company meet its policy objectives and financial obligations. In 2022, the Company received a capital injection of RMB18 million from the Lanshan District Government.

### Credit Challenges

**Higher business risk related to property and financial service segments.** The Company's commercial business includes the development and operation of industrial parks, fund investments, sales of fire equipment and salts, supply chain service, and the provision of financial services such as on-lending and guaranteed businesses. Most of the Company's commercial businesses are policy-driven which align with the local development policy of Lanshan District and facilities companies to settle in. Nevertheless, the increasing investments in commercial activities will inevitably expose the Company to higher business and financial risks.

**Moderate exposure to commercial activities which exerts pressure on capital expenditures.** LSFI has a large investment plan in its commercial activities, especially in the investment of local industrial parks, which will exert certain capital pressure. In addition, as of end-2022, the Company's main self-operated projects had a total investment of RMB3.1 billion. Considering the large capital expenditure needs of its commercial projects, we expect the Company's debt level to continue to grow over the next 12-18 months.

**Increasing debt burden.** LSFI has an increasing debt burden from continuous business expansion. As of 30 September 2023, the Company's total debt increased to RMB11.0 billion, making the total capitalization ratio that increased to 65.9%. The Company's short-term debts accounted for more than 60% of the total debts, mainly concentrated in the borrowings from the Liuqing Sub-District Office of Lanshan District. This type of borrowing is expected to renew annually when due according to the management. The remaining debts mainly come from bank loans and bonds.

### Rating Outlook

The stable outlook on LSFI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic importance in the economic and industrial development in Lanshan District over the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Lanshan District 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 lower exposure to risky commercial activities or improved public policy status.

#### What could downgrade the rating?



The rating could be downgraded if (1) Lanshan District 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 weakened funding ability.

### **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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