

CCXAP upgrades Jinan Lixia Holding Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 1 December, 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded Jinan Lixia Holding Group Co., Ltd.’s (“Lixia Holding” or the “Company”) long-term credit rating to BBB_g+ from BBB_g, reflecting our expectation of increasing government’s willingness to provide support. This is evidenced by the solid support record of the local government and Lixia Holding’s improved financial profile including a stronger capital base.

The BBB_g+ long-term credit rating of Lixia Holding reflects Lixia District Government’s (1) very 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 Lixia District Government’s capacity to support reflects its status as the largest district by gross regional product (“GRP”) in Jinan City for years, with good economic fundamentals and fiscal strengths such as large operating fiscal surplus.

The rating also reflects the local government’s high willingness to support, which is based on the Company’s (1) important position as the largest entity focusing on infrastructure construction and primary land development in Lixia District; (2) solid track record of receiving government payments; and (3) good access to diversified funding channels with reduced financing cost. However, the rating is constrained by the Company’s (1) high exposure to commercial activities which exerts pressure on capital expenditures; and (2) high debt burden and moderate asset liquidity.

Corporate Profile

Established in 2016, Lixia Holding is the largest and the most important local infrastructure investment and financing company (“LIIFC”) in Lixia District, primarily undertaking municipal projects such as infrastructure construction and primary land development in Lixia District. Moreover, the Company is engaged in commercial activities including CBD development, industrial park construction and property leasing. Lixia Holding has developed into an essential entity for the social and economic development of Lixia District. As of 30 June 2023, it was 91.32% owned by Lixia District Finance Bureau and under the direct administration of Lixia District Government. From 2022 to the first half of 2023, the Company received the capital injection from Lixia District Finance Bureau which increased its paid-in capital by a total of RMB380 million.

Rating Rationale

Credit Strengths

Important position as the largest entity focusing on infrastructure construction and primary land development in Lixia District. Lixia Holding is an exclusive entity for various key infrastructure construction and primary land development projects, which are crucial to local social and economic development that benefits the general public and local employment. We



believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. Lixia Holding has a proven track record of receiving support from the local government in terms of capital injections, asset injections, and subsidies. The cash payments from the local government partly cover the financial requirements of its public-policy projects. We believe that, as the most important state-owned enterprise in Lixia District, the Company plays an irreplaceable role in the development and operation of the district, the local government will provide strong support to the Company in times of need.

Good access to diversified funding channels with reduced financing cost. Lixia Holding shows good access to various sources of funding, including bank loans and onshore and offshore bond financing, which could partly meet its large investment needs. The majority of the Company's total debts come from bank loans and bond markets and has low proportion in non-standard products of less than 10%, indicating a relatively balanced debt structure. Considering the Company's important status as the irreplaceable platform for infrastructure construction and primary land development projects in Lixia District, we expect Lixia Holding to maintain good access to domestic bank loans and bond markets.

Credit Challenges

High exposure to commercial activities which exerts pressure on capital expenditures. Lixia Holding's commercial business exposure is high, which has constrained its rating. The Company's commercial businesses include CBD development and leasing of commercial properties. These construction projects usually have long development periods of around 5 years. This is thus a time lag between large capital investment and revenue recognition, resulting in long cash collection periods. Also, these commercial activities are highly correlated with the real estate industry, which exerts higher uncertainties on the future development. Additionally, most of its commercial businesses are funded through external debt issuance, as it is more difficult for the local government to support Lixia Holding's commercial-driven activities rather than public-policy projects.

High debt burden and moderate asset liquidity. Due to the continued financing for the construction projects, Lixia Holding's total debt has been growing rapidly over the past three years. As urban infrastructure and CBD development projects require significant capital support, we expect the Company will need additional funding from external sources to ensure ongoing development. In addition, Lixia Holding's asset liquidity is relatively weak. The relatively weak asset liquidity may undermine the Company's financial flexibility.

Rating Outlook

The stable outlook on HYIG's rating reflects our expectation that the Lixia District Government's capacity to provide support will be stable, and the Company's characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.



What could upgrade the rating?

The rating could be upgraded if (1) Lixia District 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 materially lowering exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Lixia 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 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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