

## **CCXAP affirms Yantai Chefoo Finance Holding Group Co., Ltd's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 29 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Yantai Chefoo Finance Holding Group Co., Ltd (“Yantai Chefoo” or the “Company”) at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of Yantai Chefoo reflects Zhifu District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of Zhifu District Government's capacity to provide support reflects its sound economic fundamentals and fiscal strength, such as high fiscal balance ratio and manageable debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) ultimate control by the Zhifu District Government; (2) strategic importance in the regional development of Zhifu District; (3) solid government support through capital injections, asset transfers, and subsidies; and (4) good access to funding from banks and domestic bond market. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) relatively high debt growth due to large expenditure requirements in construction projects.

### **Corporate Profile**

Founded in June 2017, Yantai Chefoo is the most important local infrastructure investment and financing company (“LIIFC”) in Zhifu District, Yantai City, Shandong Province. The Company is the largest state-owned enterprise by asset size and primarily responsible for urban infrastructure construction, urban renewal, and operation of state-owned assets in Zhifu District. Apart from public development projects, the Company engages in some commercial activities such as property leasing and sales, and trading business. As of 31 December 2022, the Company was 99.93% owned by the State-owned Assets Operation Center of Yantai Zhifu District and 0.07% owned by Yantai Finance Development Investment Group Co., Ltd., of which Zhifu District Government was the ultimate controller of the Company.

### **Rating Rationale**

#### **Credit Strengths**

**Strategic importance in the regional development of Zhifu District.** Yantai Chefoo's main businesses are closely related to the economic and social development of Zhifu District, acting as a key LIIFC commissioned by the Zhifu District Government to undertake major urban infrastructure construction, resettlement housing construction and sales, state-owned asset operations, and urban renewal projects. Most importantly, the Company is the exclusive developer of the Happiness City project.

**Solid government support through capital injections, asset transfers, and subsidies.** Yantai Chefoo has a solid track record of receiving support from the local government in terms

of subsidies, asset transfers, and capital injections. Given its dominant position in the urban renewal and infrastructure construction of Zhifu District, we expect the Company will continue to receive support from the local government in the foreseeable future, which will further enhance its operating and capital strength accordingly, in our view.

**Good access to funding from banks and domestic bond market.** Yantai Chefoo has good access to multiple financing channels and the primary sources of funding are bank loans and bond issuances. As of 30 June 2023, Yantai Chefoo obtained total credit facilities of RMB34.5 billion and the available portion was RMB29.0 billion. From January 2022 to October 2023, it issued 4 bonds in the domestic bond market totaling issued amount of RMB4.5 billion.

### Credit Challenges

**Medium exposure to commercial activities.** Yantai Chefoo is expanding to several commercial activities such as property leasing and sales, and trading business. Although the commercial assets accounted for a relatively large proportion of total assets at the end of 2022, we estimate the Company's risk exposure to commercial activities is manageable as the majority of the assets are properties injected from the local government without upfront investment capital needs.

**Relatively high debt growth due to large expenditure requirements in construction projects.** Due to the ongoing investment in infrastructure construction and urban renewal in the Happiness City project, Yantai Chefoo demonstrated relatively high debt growth during the past three years. Considering the ongoing investment in the Happiness City project and the funding gap between government payments and upfront investments, we believe there is a high growth potential for the Company's debt level.

### Rating Outlook

The stable outlook on Yantai Chefoo's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its essential role in urban infrastructure construction and urban renewal in Zhifu District, will remain largely unchanged over the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Zhifu District Government's capacity to support the Company strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as lower the exposure to risky commercial activities and improved debt management.

#### What could downgrade the rating?

The rating could be downgraded if (1) Zhifu District 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 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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