

CCXAP assigns first time long-term credit rating of A₉- to Qingdao West Coast New Area Ocean Holdings Group Co., Ltd., with stable outlook.

Hong Kong, 10 January, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of A₉- to Qingdao West Coast New Area Ocean Holdings Group Co., Ltd. (“Ocean Holding” or the “Company”), with stable outlook.

The A₉- long-term credit rating of Ocean Holding reflects Qingdao West Coast New Area (“QDWC New Area”) Government’s very strong capacity and 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 the status of QDWC New Area as the 9th National New Area and the local government’s strong economic strength, 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) full and direct ownership by the QDWC New Area Government; (2) key strategic role in the infrastructure construction of the QDWC New Area; (3) solid track record of receiving government payments; and (4) good access to diversified fundings. However, the rating is constrained by the Company’s (1) high exposure to commercial businesses; and (2) increasing debt burden driven by continuous investment.

Corporate Profile

Founded in November 2018, Ocean Holding is one of the two major local infrastructure investment and financing companies (“LIIFCs”) in the QDWC New Area. It was directly and wholly owned by the Qingdao West Coast New Area State-owned Assets Administration Commission (“QDWC New Area SAAC”) as of 30 September 2023. Ocean Holding has undertaken major infrastructure construction and primary land consolidation projects in the QDWC New Area. It is also involved in commercial businesses including property development, trading, sales of electrical product, communication products and polymer materials, clean energy products sales, and equity fund investments.

Rating Rationale

Credit Strengths

Key strategic role in the infrastructure construction of the QDWC New Area. Ocean Holding is one of two pilot state-owned enterprises owned by the QDWC New Area SAAC and mandated by the government to develop the QDWC New Area. The Company is the core entity engaging in local public projects such as infrastructure construction and land consolidation in QDWC New Area. The Company has a large development scope in QDWC New Area and a strong capability for business sustainability, and it is unlikely to be replaced by other entities.

Solid track record of receiving government support. As one of the core LIIFCs of QDWC New Area, Ocean Holding has a solid track record of receiving government payments. The Company has received project payments, operating subsidies, and asset and cash injections

from the local government to support its investments and business operations. We expect government support to Ocean Holding to continue to increase over the next 12 to 18 months, given its strong public policy role and large scale of public projects under construction and planning.

Good access to diversified fundings. Ocean Holding has multiple financing channels to support its operations and investments, including bank loans, onshore and offshore bond issuances, which can partially relieve the pressure on debt repayment and capital expenditure. It maintains good relationships with joint-stock commercial banks and large state-owned commercial banks. The Company also has good access to the onshore and offshore debt capital markets.

Credit Challenges

High exposure to commercial business activities. Ocean Holding's exposure to commercial businesses is relatively high with large capital expenditure needs. The Company's commercial businesses include trading, property development, sales of electrical products, communication products and polymer materials, clean energy products sales, and equity and fund investment. We consider the Company's exposure to commercial businesses to be high, especially in property development during the downturn of China's real estate market. Moreover, there was certain investment risk arising from equity investment, as it usually takes long time for the return to be fully reflected.

Increasing debt burden driven by continuous investment. Ocean Holding's debt had grown rapidly over the past three years due to continuous investment in infrastructure construction and commercial activities. The Company's capitalization ratio remained at a relatively high level as of 30 September 2023. We expect the Company may rely on external financing for its future infrastructure construction, land consolidation, and property development projects, and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Rating Outlook

The stable outlook on Ocean Holding's rating reflects our expectation that the QDWC New Area Government's capacity to provide support will be stable, and that the Company will maintain its strategic role in undertaking public policy projects in the QDWC New Area over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) QDWC New Area 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 materially lowers the exposure to risky commercial activities.

What could downgrade the rating?



The rating could be downgraded if (1) QDWC New Area 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, decreased government support, or weakened funding capabilities.

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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