

CCXAP assigns first time long-term credit rating of BBB_g+ to Pingdu City Development Group Co., Ltd., with stable outlook.

Hong Kong, 18 January, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Pingdu City Development Group Co., Ltd. (“PDCD” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of PDCD reflects Pingdu City Government’s strong capacity and extremely 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 Pingdu City as the advanced manufacturing base in northern part of Qingdao City and the continued economic growth of Pingdu City, but constrained by moderate fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) pivotal role in infrastructure construction and state-owned asset operation in Pingdu City; (2) good track record of receiving government supports; and (3) good access to funding. However, the rating is constrained by the Company’s (1) moderate risk to commercial businesses with relatively high investment pressure; and (2) increasing debt burden driven by capital expenditures on construction projects.

Corporate Profile

Founded in June 2018, PDCD is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Pingdu City. The Company is mainly responsible for infrastructure construction and maintenance, land consolidation, resettlement housing construction in the southern new area and western new city of Pingdu City. The Company also provides essential public services in Pingdu City, such as water supply and bus operation. In addition, PDCD is involved in commercial businesses including industrial parks construction, property leasing, as well as trading. As of 30 September 2023, the Company was directly and wholly owned by Pingdu State-owned Assets Management Service Centre.

Rating Rationale

Credit Strengths

Pivotal role in infrastructure construction and state-owned asset operation in Pingdu City. As one of the core LIIFCs of Pingdu City, PDCD was mainly involved in local public projects such as infrastructure construction and land consolidation in the western and southern new areas of Pingdu City. PDCD provides essential public services in Pingdu City such as water supply and bus operation. PDCD has a large scope for development and a strong capacity for business sustainability in Pingdu City, as well as an essential role in the provision of public services. In our view, the Company is unlikely to be replaced by other local SOEs in the foreseeable future.

Good track record of receiving government support. As a pivotal infrastructure construction and state-owned asset operation entity in Pingdu City, PDCD has a good track record of

receiving government supports. The Company has received project payments, operating subsidies, and asset and cash injections from the local government to support its business operations. Given PDCD's strong public policy role and large scale of public projects under construction and planning, we expect local government would continuous to provide support to the Company over the next 12 to 18 months.

Good access to funding. PDCD has multiple financing channels such as bank loans, onshore and offshore bond issuance, and non-standard financing. Bank loans and bond issuances accounted for the majority of total debt. We consider PDCD's exposure to non-standard financing was controllable, accounting for below than 10% of total debt as of 30 September 2023.

Credit Challenges

Moderate risk to commercial businesses with relatively high investment pressure. Apart from public activities, PDCD is also involved in a diversified range of commercial activities that contribute part of its revenue, including construction of self-operated projects, property leasing, as well as trading. These commercial activities may also entail higher operational and business risks than public policy activities. At the same time, large amount of self-operated projects will exert capital expenditure pressure on the Company. We estimate that PDCD's risk to commercial activities is moderate because some of commercial assets are transferred by the government, such as sand mining rights, and the majority of its commercial activities are policy-driven, which aim to promote local industry and economic development.

Increasing debt burden driven by capital expenditures on construction projects. PDCD's debt had grown rapidly over the past three years due to continuous investment in infrastructure construction and self-construction projects. The Company had a relatively high short-term debt burden. We expect the Company may rely on external financing for its future infrastructure construction, land consolidation, and self-operated projects, and its debt level will further increase in the next 12 to 18 months. In addition, PDCD's asset liquidity was relatively weak

Rating Outlook

The stable outlook on PDCD's rating reflects our expectation that the local government's capacity to provide support will be stable, and that the Company will maintain its important role in infrastructure construction and state-owned asset operation of Pingdu City over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Pingdu City 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 lowers the exposure to risky commercial activities, and improved debt management.

What could downgrade the rating?



The rating could be downgraded if (1) Pingdu City 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 financing 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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http://www.ccxap.com/en/rating_services/category/6/

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