

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub> to Shandong Quanhui Industrial Development Co., Ltd., with stable outlook.**

Hong Kong, 1 March, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to Shandong Quanhui Industrial Development Co., Ltd. (“QHID” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of QHID reflects Zhangqiu District Government’s (1) 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 Zhangqiu District Government’s capacity to provide support reflects Zhangqiu District’s gross regional production (“GRP”) ranking upper-middle among the counties or districts in Jinan City over years, and its relatively strong economic and financial strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in local economic and industrial development; and (2) good track record of receiving supports from its parent company and the local government. However, the rating is constrained by its (1) medium exposure to commercial activities with relatively large capital expenditure pressure; (2) increasing debt burden driven by business expansion; and (3) medium contingent liability risk associated with guarantee business.

### **Corporate Profile**

Founded in 2019, QHID became an important comprehensive state-owned enterprise in Zhangqiu District after the consolidation of some local state-owned enterprises in 2023, mainly engages in production and sales of blowers and urban renewal projects. It also developed diversified businesses, including industrial parks development and operation, engineering construction, equity investment, guarantee business, as well as hotel management in Zhangqiu District. QHID is a wholly-owned subsidiary of Jinan Zhangqiu Holding Group Co., Ltd. (“ZQHG”), who is the largest local infrastructure investment and financing company (“LIIFC”) in Zhangqiu District and directly owned and controlled by the Finance Bureau of Zhangqiu District.

### **Rating Rationale**

#### **Credit Strengths**

**Important role in local economic and industrial development.** There are two most important LIIFCs in Zhangqiu District, which are ZQHG and Shandong Longshan Industrial Development Investment Group Co., Ltd. (“LSID”), respectively. LSID is a key urban construction and development entity, as well as the main driver of industrial development in Zhangqiu District. ZQHG is the largest LIIFC in Zhangqiu District in terms of the total assets, which is an important infrastructure investment, construction, and operation entity in Zhangqiu District and plays a significant role in local urban development and state-owned assets operation. QHID is one of the key subsidiaries of ZQHG, mainly engages in regional key project construction, and industrial parks development and operation in Zhangqiu District.

**Good track record of receiving supports from its parent company and the local government.** QHID has a good track record of receiving support from its parent company ZQHG and the local government. We believe that QHID will receive ongoing support from the local government and its parent company ZQHG, given its important position in local economic and industrial development.

#### **Credit Challenges**

**Medium exposure to commercial activities with relatively large capital expenditure pressure.** Apart from public-related activities, QHID also engages in various kinds of commercial activities, mainly including production and sales of blowers, industrial parks development and operation, equity investment, guarantee business, as well as hotel management in Zhangqiu District. We consider QHID's commercial business exposure to be medium. However, the future investment needs in industrial park development would bring high capital expenditure pressure to the Company.

**Increasing debt burden driven by business expansion.** Due to the business expansion, QHID's total debt has recorded an ongoing increase over the past years. As of 30 September 2023, the Company's total debt sharply increased to RMB2.4 billion, while the total capitalization ratio increased to 18.0%. As the Company may continue to rely on external financing for its investment in industrial park projects, it is expected that the Company's total debt burden would further increase in the next 12-18 months.

**Medium contingent liability risk associated with guarantee business.** The credit profile of QHID is constrained by its guarantee business, which could potentially increase its repayment obligations. The Company provides loan guarantees for micro and small scaled enterprises, agricultural entities, entities in rural areas, and farmers in Jinan City. As of 30 June 2023, the Company's outstanding external guarantees amounted to RMB729 million.

#### **Rating Outlook**

The stable outlook on QHID's rating reflects our expectation that Zhangqiu District Government's capacity to provide support will be stable, and the Company will maintain its important role in the economic and industrial development of Zhangqiu District over the next 12 to 18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) Zhangqiu 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 reduced exposure to risk commercial activities or improved financing ability.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) Zhangqiu 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, increased exposure to risk commercial activities, or weakened debt management.

### **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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