

CCXAP affirms the long-term credit rating of Qingdao Ronghui Fortune Investment Holding Group Co., Ltd. at BBB_g+, with stable outlook.

Hong Kong, 3 April 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Qingdao Ronghui Fortune Investment Holding Group Co., Ltd. ’s (“QDRH” or the “Company”) long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of QDRH reflects Shibei District Government’s very strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shibei District Government’s capacity to provide support reflects Shibei District’s sound economic and fiscal strength, with a gross regional product (“GRP”) of over RMB100 billion.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role in the industrial and urban development in Shibei District; (2) good track record of government support such as receiving shantytown assets and equity transfer; and (3) good access to diversified funding sources. However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities; and (2) increasing short-term debt burden.

Corporate Profile

Established in 2019, QDRH is the one of the primary local infrastructure investment and financing companies (“LIIFCs”) that focuses on urban investment and operations, as well as industrial services in Shibei District, Qingdao City. QDRH is engaged in land consolidation and development, infrastructure construction and shantytown development in Shibei District. It also undertakes commercial activities such as property development, property leasing, trading and financial investment. As of 30 September 2023, QDRH was 90% owned by the State-owned Assets Operation and Development Center of Qingdao Shibei District (“Shibei SAODC”) and 10% owned by the Shandong Caixin Asset Operating Co., Ltd. Its ultimate controller was the Shibei SAODC.

Rating Rationale

Credit Strengths

Key role in the industrial and urban development in Shibei District. QDRH is the one of the primary LIIFCs in Shibei District, with a strong strategic position under the local government’s planning. QDRH is positioned as a main entity in Shibei District that undertakes financial investment, industrial investment as well as urban development and construction including infrastructure construction. It is responsible for land consolidation and secondary development such as construction of factories, office building and commercial development in Shibei District.

Good track record of receiving government support. As a major entity undertaking public activities in Shibei District, QDRH has a solid track record of receiving government support in



various forms such as capital injection, financial subsidies, and government payment for construction projects. Apart from that, local government also provides financial support to release the Company's financing pressure such as injection of special bond funds and project initial funds as well as on-lending the loans for the shantytown projects from China Development Bank. Given the Company's strategic importance in Shibe District, we believe that the Shibe District Government will provide QDRH with ongoing operational and financial support.

Good access to diversified funding sources. The Company's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. QDRH has good access to various sources of funding, including banks and the bond market. It has maintained good relationships with large domestic banks including national joint-stock commercial banks and state-owned large commercial banks. QDRH also has access to onshore debt capital market and issued different financial products in the onshore bond market such as SCPs, corporate bonds, MTNs and private placement notes. In addition, QDRH has manageable exposure to non-standard channels as of 30 September 2023.

Credit Challenges

Increasing exposure to commercial activities. QDRH is engaged in diversified commercial activities including trading business, property development, property leasing and financial investment. While the commercial activities generate supplemental income, they may also pose higher operating and business risks than traditional infrastructure construction business. QDRH relies on external financing to support the development of its commercial activities. The increase of investment in property development projects may increase the Company's exposure to commercial activities.

Increasing short-term debt burden. QDRH has an increasing debt level because of its continuous investment in land consolidation, shantytown projects and property development. In addition, the liquidity profile was weak. Considering the ongoing investment in projects under construction and increase in investment in commercial activities, such as commercial building construction and financial investment, we expect the Company may rely on external financing and its total debt level will continue to increase in the next 12 to 18 months. Besides, QDRH's asset liquidity was moderate.

Rating Outlook

The stable outlook on QDRH's rating reflects our expectation that Shibe District Government's capacity to provide support will be stable; and the Company will maintain its key role in industrial and urban development in Shibe District over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Shibe District Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Shibe 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 a reduction in the importance of its policy role, weakened government payments, or a deterioration in its financing 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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http://www.ccxap.com/en/rating_services/category/6/

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