

CCXAP affirms Qingdao Shibe Construction Investment Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 23 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Qingdao Shibe Construction Investment Group Co., Ltd.’s (“SBCI” or the “Company”) long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of SBCI reflects Shibe District Government’s (1) very strong capacity to provide support based on our assessment of Shibe District; and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shibe District Government’s capacity to support reflects Shibe 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 very high willingness to provide support, based on the Company’s (1) important policy role as an urban operator of Shibe District; (2) good track record of receiving government support; and (3) good access to diversified funding sources. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage level and weak asset liquidity.

Corporate Profile

Established in 2016, SBCI is the one of the primary local infrastructure investment and financing companies (“LIIFCs”) that focuses on urban operations and investment in Shibe District, Qingdao City. SBCI plays an important role in public activities in Shibe District, such as land consolidation and development, affordable housing, and urban renewal projects. The Company also undertakes commercial activities such as property development, property leasing and trading. As of 30 September 2023, SBCI was directly and wholly-owned by the State-owned Assets Operation and Development Center of Qingdao Shibe District.

Rating Rationale

Credit Strengths

Important policy role as an urban operator of Shibe District. SBCI is the one of the primary LIIFCs in Shibe District, with a strong strategic position under the local government’s planning. SBCI is positioned as the main urban operator that specializes in the urban renewal, investment, and operations. It plays an important role in land consolidation, affordable housing, shantytown and urban renewal projects, and its government-related assets such as shantytown, land, and affordable housing account for a relatively large proportion of the Company’s total assets

Good track record of receiving government support. As a major entity undertaking public activities in Shibe District, SBCI has a proven track record of receiving government support in various forms such as capital injection, financial subsidies, asset injections and government payment for construction projects.

Good access to diversified funding sources SBCI has good access to various sources of funding including banks and the bond market, which could help it refinance and meet capital expenditure needs. The Company has maintained good relationships with large domestic banks including national joint-stock commercial banks and state-owned large commercial banks. Moreover, SBCI also has good access to debt capital market. In addition, SBCI's exposure to non-standard channels is manageable, accounting for less than 10% of total debt as at 30 September 2023.

Credit Challenges

Medium exposure to commercial activities. SBCI's major commercial businesses include engineering construction, industrial park construction and operation, property leasing and commodity trade. We believe these market-oriented activities may have higher uncertainty in future income. We estimated that the Company's exposure to commercial activities is medium, with the commercial assets accounted for less than 30% of SBCI's total assets as of 30 September 2023.

High debt leverage level and weak asset liquidity. SBCI's debt leverage remains high due to its continuous investment in land consolidation and shantytown projects, as well as long government repayment periods. The Company's short-term debt burden has been increasing. In addition, the liquidity of SBCI's assets was relatively weak. Given its continuous investment plans in land consolidation and commercial businesses, we expect the Company's total debt leverage will remain high in the next 12 to 18 months. In addition, the liquidity of SBCI's assets was relatively weak.

Rating Outlook

The stable outlook on SBCI's rating reflects our expectation that Shibe District Government's capacity to provide support will be stable; and the Company will maintain its important policy role as an urban operator 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, or improved debt management.

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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