

## **CCXAP affirms Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.'s long-term credit rating at A<sub>g</sub>-, with stable outlook.**

Hong Kong, 11 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.’s (“Ronghe Holding” or the “Company”) long-term credit rating at A<sub>g</sub>-, with stable outlook. At the same time, CCXAP has affirmed its senior unsecured debt rating of A<sub>g</sub>-.

The A<sub>g</sub>- long-term credit rating of Ronghe 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 local government’s capacity to provide support reflects the status of QDWC New Area as the ninth National New Area and the local government’s strong economic strength and good fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full and direct ownership by the QDWC New Area Government; (2) strong strategic role in undertaking public policy projects in the development of the QDWC New Area; (3) good track record of receiving government payments; and (4) diversified and stable funding sources from major banks and bond markets. However, the rating is constrained by the Company’s (1) high exposure to commercial activities; and (2) accelerated debt growth driven by expansion; and (3) risk exposure to regional private-owned enterprises during market downturn.

### **Corporate Profile**

Founded in November 2018, Ronghe 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 31 March 2024. Ronghe Holding has undertaken major infrastructure construction, resettlement housing, and educational projects in the QDWC New Area. It is also involved in commercial activities including trading, property development, manufacturing, chemical business, and financial services businesses such as guarantees, small-sum loans, pawning, and leasing.

### **Rating Rationale**

#### **Credit Strengths**

**Strong strategic role in undertaking public policy projects in the development of the QDWC New Area.** Ronghe 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 integrating innovation, rural revitalization, as well as conversion of conventional and new energy. In view of its strategic role and business position in the QDWC New Area, we believe that the potential substitution for Ronghe Holding to be low and government support will be highly likely in the near future.



**Good track record of receiving government payments.** Ronghe Holding has a proven track record of receiving government payments. The Company's infrastructure investments are mostly funded by the local government through special bond funding. The Company also received cash injections, management fees for infrastructure projects, repurchase payments and other cash payments from the government to meet some of the financial needs of its public policy projects. Over the past years, government payments have steadily increased as the Company expanded in size.

**Diversified and stable funding sources from major banks and bond markets.** Ronghe Holding has multiple financing channels to support its operations and investments, including bank loans and bond issuances. Loans from financial institutions accounted for the majority of Ronghe Holding's total debt, mainly provided by diversified domestic banks including policy banks. It also has issued different financial products in the onshore bond market such as commercial papers, MTNs, private placement notes, and asset-backed notes. The Company also issued 5 tranches of Free Trade Zone bonds.

### Credit Challenges

**High exposure to commercial activities.** Ronghe Holding's exposure to commercial activities is high with large capital spending needs and higher business operational risks, which has constrained its rating. The Company's commercial activities include trading, property development, chemical, manufacturing, and financial services. Despite some of these activities that are more policy-driven and related to its public policy businesses, the local government's willingness to provide support may be reduced if its commercial exposure significantly increases, as it is more difficult for the government to support Ronghe Holding's commercial activities.

**Accelerated debt growth driven by expansion.**

**Risk exposure to regional private-owned enterprises during market downturn.** Ronghe Holding's large-scale commercial activities also make it bear certain risk exposure to local private-owned enterprises, which have higher operation risks during market downturn. As of 31 December 2023, the Company reported total receivables (including account receivables, other receivables and long-term receivables) of RMB19.8 billion, mainly from its commercial activities such as trade and engineering businesses that have a relatively high collection risk.

### Rating Outlook

The stable outlook on Ronghe 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 consistently increases government payments, materially lowers the exposure to risky commercial activities and improves in debt management and asset quality.

#### **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 payments, 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Christy Liu  
*Credit Analyst*  
+852-2860 7130  
[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)



Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656