

Credit Opinion

1 December 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

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Jinan Lixia Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP upgrades the long-term credit rating of Jinan Lixia Holding Group Co., Ltd. to BBB_g+, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Jinan Lixia Holding Group Co., Ltd. (“Lixia Holding” or the “Company”) to BBB_g+ from BBB_g, reflecting our expectation of increasing government’s willingness to provide support. This is evidenced by the solid support record of the local government and Lixia Holding’s improved financial profile including a stronger capital base.

The BBB_g+ long-term credit rating of Lixia Holding reflects Lixia District Government’s (1) very 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 Lixia District Government’s capacity to support reflects its status as the largest district by gross regional product (“GRP”) in Jinan City for years, with good economic fundamentals and fiscal strengths such as large operating fiscal surplus.

The rating also reflects the local government’s high willingness to support, which is based on the Company’s (1) important position as the largest entity focusing on infrastructure construction and primary land development in Lixia District; (2) solid track record of receiving government payments; and (3) good access to diversified funding channels with reduced financing cost.

However, the rating is constrained by the Company’s (1) high exposure to commercial activities which exerts pressure on capital expenditures; and (2) high debt burden and moderate asset liquidity.

The stable outlook on Lixia Holding’s rating reflects our expectation that the Lixia District Government’s capacity to provide support will be stable, and the Company’s characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Largest entity focusing on infrastructure construction and primary land development in Lixia District
- Solid track record of receiving government payments
- High exposure to commercial activities which exerts pressure on capital expenditures
- High debt burden and moderate asset liquidity
- Good access to diversified funding channels with reduced financing cost

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Lixia 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 materially lowering exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Lixia 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 or decreased government payments.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	39.6	44.8	57.4	62.7
Total Equity (RMB billion)	3.2	4.4	11.8	11.8
Total Revenue (RMB billion)	4.6	5.6	5.0	0.3
Total Debt/Total Capital (%)	76.2	73.2	58.2	61.5

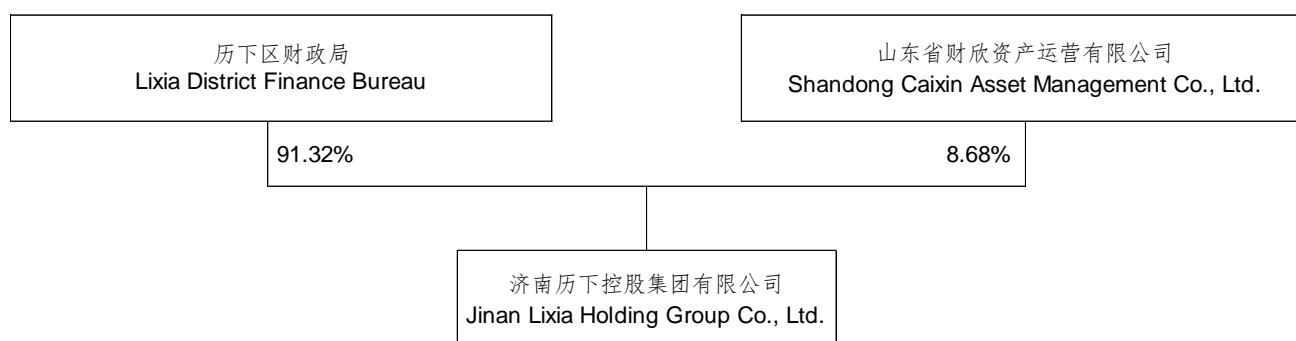
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

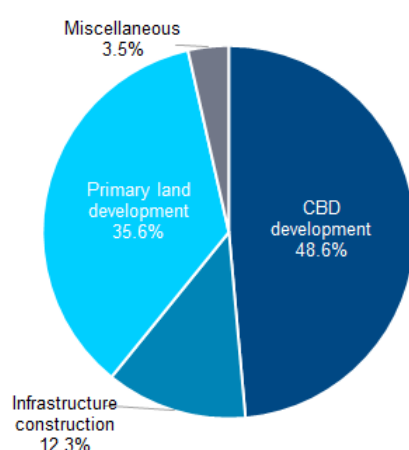
Established in 2016, Lixia Holding is the largest and the most important local infrastructure investment and financing company ("LIIFC") in Lixia District, primarily undertaking municipal projects such as infrastructure construction and primary land development in Lixia District. Moreover, the Company is engaged in commercial activities including CBD development, industrial park construction and property leasing. Lixia Holding has developed into an essential entity for the social and economic development of Lixia District. As of 30 June 2023, it was 91.32% owned by Lixia District Finance Bureau and under the direct administration of Lixia District Government. From 2022 to the first half of 2023, the Company received the capital injection from Lixia District Finance Bureau which increased its paid-in capital by a total of RMB380 million.

Exhibit 1. Shareholding chart as of 30 June 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government of Lixia District has a very strong capacity to provide support given its good economic fundamentals and fiscal strengths such as a large operating fiscal surplus.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Jinan City is a sub-provincial city, the capital of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1 trillion over the past three years. Over the same period, Jinan City ranked 9th by GRP among 15 sub-provincial cities in China and ranked 2nd among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2020 to 2022, its general budgetary revenue increased from RMB90.6 billion to RMB100 billion, with average self-sufficient rate (general budgetary revenue/general budgetary expenditure) of 75.9%. As of 31 December 2022, the local government's outstanding debt amounted to RMB266.0 billion, accounting for 22.1% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Jinan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,014.1	1,143.2	1,202.8
GRP Growth (%)	4.9	7.2	3.1
General Budgetary Revenue (RMB billion)	90.6	100.8	100.0
General Budgetary Expenditure (RMB billion)	128.8	129.3	126.0
Local Government Debt (RMB billion)	168.3	212.0	266.0

Source: Statistic Bureau of Jinan City, CCXAP research

Located in the east area of Jinan, Lixia District is the political, economic, and cultural centre of Jinan City. It focuses on key areas such as finance, headquarters economy, and business services, also acting as the financial centre of the Shandong Province. Lixia District has demonstrated an increasing economic growth in recent years. In 2022, the GRP of Lixia District increased by 4.5% YoY to RMB228.3 billion, representing 4.5% YoY growth, ranking 1st among 12 districts or counties in Jinan City. Tax accounted for over 90% of the general public revenue over the past three years, which is a stable revenue source. Lixia District has a very strong fiscal balance, with a high general budgetary revenue/general budgetary expenditure ratio over 160% for the past three years. It also has a healthy government debt profile, with a government debt/GRP ratio of 1.2% as of 31 December 2022.

Exhibit 4. Key Economic and Fiscal Indicators of the Lixia District

	2020FY	2021FY	2022FY
GRP (RMB billion)	191.0	212.4	228.3
GRP Growth (%)	4.5	7.8	4.5
General Budgetary Revenue (RMB billion)	15.2	16.9	16.2
General Budgetary Expenditure (RMB billion)	7.8	8.1	9.6
Local Government Debt (RMB billion)	0.4	0.5	2.7

Source: Lixia District Government, CCXAP research

Government's Willingness to Provide Support**Largest entity focusing on infrastructure construction and primary land development in Lixia District**

Lixia Holding is an exclusive entity for various key infrastructure construction and primary land development projects, which are crucial to local social and economic development that benefits the general public and local employment. The other two LIIFCs in Lixia District are Jinan Gucheng City Development Co., Ltd. and Jinan Lixia City Development Group Co., Ltd., which are responsible for urban infrastructure projects in specific areas in Lixia District.

As the largest entity authorized by Lixia District Government to undertake the construction of infrastructure projects in Lixia District, Lixia Holding is committed to conduct several key public infrastructure projects such as the construction and renovation of roads, and construction of ancillary facilities, by entering into procurement agreements with the relevant government agencies or construction contracts with third-party companies. The Company also had sufficient project reserves with 101 newly signed contracts in 2022, with a total contract value of RMB1.3 billion. As of 31 December 2022, the Company had a total contract amount of RMB850.0 million in hand, with a completed amount of RMB258.0 million, showing high sustainability.

Lixia Holding acts as a key player in primary land development in Lixia District in accordance with the development plans of Lixia District Government. The Company undertakes relevant construction projects under

the agent construction model, including land consolidation, construction of resettlement houses, schools, and surrounding facilities, improving the public welfare of the residents in Lixia District. The Company's primary land development projects are mainly in the areas of Dingjia Village, Shengfu Area, and Liuzhiyuan Village in Lixia District. After the completion of the projects, the local government will return around 60% of the sales of the relevant land use rights in land consolidation, and pay for the construction cost of the resettlement house on an annual basis according to the government purchase agreement. As of 31 December 2022, the Company had 6 shantytown renovation projects under construction with a total estimated investment amount of RMB20.2 billion and an uninvested amount of RMB4.5 billion.

As the essential infrastructure construction entity in the district, Lixia Holding has important strategic significance for local social and economic development. We believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments

Lixia Holding has a proven track record of receiving support from the local government in terms of capital injections, asset injections, and subsidies. The cash payments from the local government partly cover the financial requirements of its public-policy projects.

Since its establishment, the local government has injected cash and operating assets into the Company to help it generate recurring operating cash flow. From 2022 to 2023H1, Lixia Holding received ongoing government cash injection of around RMB380.5 million, increasing the Company's paid-in capital to RMB2.2 billion. Over the same period, the local government also injected capital into the Company, including cash and asset injection, and equity transfer of a state-owned entity in Lixia District, increasing capital reserve by around RMB301.5 million and further enhancing the capital strength of Lixia Holding. Apart from that, Lixia Holding received ongoing government subsidies of RMB3.9 million from 2022 to 2023H1. As of end-2022, the Company received payments for the resettlement house projects and the cash refund of land cost for land consolidation, according to the agreements signed with the local government, with amount of approximately RMB23.7 billion. Furthermore, in order to support the Company's ongoing construction, the local government provided sufficient amount of special loans and bonds to Lixia Holding, recording a large scale of RMB1.4 billion in 2023.

The magnitude and track record of these government supports indicate the government's propensity to support the Company. We believe that, as the most important state-owned enterprise in Lixia District, the Company plays an irreplaceable role in the development and operation of the district, the local government will provide strong support to the Company in times of need.

High exposure to commercial activities which exerts pressure on capital expenditures

Lixia Holding's commercial business exposure is high, accounting for more than 30% of its total assets, which has constrained its rating. The Company's commercial businesses include CBD development and leasing of commercial properties. These construction projects usually have long development periods of around 5 years. This is thus a time lag between large capital investment and revenue recognition, resulting in long cash collection periods. Also, these commercial activities are highly correlated with the real estate industry, which exerts higher uncertainties on the future development. Additionally, most of its commercial businesses are funded through external debt issuance, as it is more difficult for the local government to support Lixia Holding's commercial-driven activities rather than public-policy projects.

The Company's CBD development business is principally the construction and development of commercial

properties including commercial housing and office buildings, which will be sold or leased out. As of end-2022, around 70% of the completed commercial properties were sold. At the same time, the Company had 17 CBD development projects under various stages of development with uninvested amount of RMB15.6 billion. The ongoing investment in these construction projects may require large capital spending, which could pose more financing pressure on the Company. Moreover, increasing investment in property development may bring more operating uncertainties and financial risks to the Company as the property sales are easily affected by the market conditions.

Lixia Holding also participates in the leasing of commercial properties, including office buildings, carparks and ancillary facilities, which were transferred by the government, purchased, acquired and rebuilt, or self-built by the Company. As of end-2022, the Company had a total leasable area of around 276.9 thousand square meters. However, the overall occupancy rate was relatively low of less than 50%. As of end-2022, the Company had 4 leasing projects under construction, including industrial parks, factory buildings, hospitals, with a total investment of RMB4.5 billion and an outstanding investment of RMB3.3 billion. The Company's investment properties require long holding periods, which may expose the Company to larger investment and execution risks.

Considering the large expenditure needs of its commercial activities including the salable and leasable commercial properties under construction, we expect the Company's debt level to continue to grow over the next 12-18 months.

High debt burden and moderate asset liquidity

Due to the continued financing for the construction projects, Lixia Holding's total debt has been growing rapidly over the past three years. As of 30 June 2023, the Company's total debt increased to RMB18.8 billion from RMB11.9 billion at end-2021, which was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. With the aim to objectively reflect the fair value of its investment properties, Lixia Holding has made accounting policy changes in the measurement of investment properties from cost measurement to fair value measurement in 2022. Affected by the accounting policy change and capital injection from the local government, the total capitalization ratio decreased to 61.5% as of 30 June 2023 from 73.2% as of end-2021. As urban infrastructure and CBD development projects require significant capital support, we expect the Company will need additional funding from external sources to ensure ongoing development.

In addition, Lixia Holding's asset liquidity is relatively weak. As of 30 June 2023, the Company pledged a number of assets for loans, such as lands and commercial properties, with a total amount of RMB5.4 billion, accounting for around 46% of its net assets. Besides, Lixia Holding's inventories and investment properties accounted for more than 70% of the total assets. Majority of these assets were considered low liquidity. Inventories were mainly construction costs of CBD development projects. The relatively weak asset liquidity may undermine the Company's financial flexibility.

Good access to diversified funding channels with reduced financing cost

Lixia Holding shows good access to various sources of funding, including bank loans and onshore and offshore bond financing, which could partly meet its large investment needs. The majority of the Company's total debts come from bank loans and bond markets and has low proportion in non-standard products of less than 10%, indicating a relatively balanced debt structure.

Lixia Holding maintains good long-term relationships with large domestic banks. As the major entity to undertake public policy projects in Lixia District, the Company's bank credit facilities have expanded. As of 31 August 2023, the Company had total credit facilities of RMB29.6 billion, with the available portion being RMB18.9 billion. The credit facilities were provided by diversified domestic banks, including national joint-stock commercial banks and major state-owned banks such as Industrial Bank Co., Ltd., Industrial and Commercial Bank of China Limited, and Bank of China Limited.

Lixia Holding is also an active issuer in the onshore bond capital market. From 2022 to October 2023, the Company issued 4 domestic private placement notes of RMB2.4 billion, with coupon rates ranging from 3.15% to 4.1%. In 2023, the Company issued one tranche of offshore USD bond, raising USD300.0 million. As of 31 August 2023, the Company also had outstanding onshore and offshore bond approval amount of RMB2.3 billion and USD300 million, respectively. With the strong economic strengths of Jinan City and Lixia District, and the improved capitalization structure of the Company, the overall financing cost of the Company decreased from 4.6% to 4.3%; while that of non-standard financing decreased from 6% to 5.7%.

Considering the Company's important status as the irreplaceable platform for infrastructure construction and primary land development projects in Lixia District, we expect Lixia Holding to maintain good access to domestic bank loans and bond markets.

ESG Considerations

Lixia Holding assumes environmental risks through its infrastructure construction and primary land development projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

Lixia Holding bears social risks as it implements public policy initiatives by building public infrastructure in Lixia District. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the company.

Lixia Holding's governance considerations are also material as the Company is subject to oversight by Lixia District Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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