

Credit Opinion

15 July 2025

Ratings	
Senior Unsecured Debt Rating	A _g -
Long-Term Credit Rating	A _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Weifang Urban Construction and Development Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Weifang Urban Construction and Development Investment Group Co., Ltd.'s long-term credit rating at A_g-, with stable outlook.

Summary

The A_g- long-term credit rating of Weifang Urban Construction and Development Investment Group Co., Ltd. (“WUCD” or the “Company”) reflects Weifang Municipal 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 Weifang Municipal Government’s capacity to support reflects Weifang City’s status as the fourth largest city in Shandong Province by gross regional product (“GRP”) and general budgetary revenue, with good economic and industrial development.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strategic policy role in the regional development of Weifang City, especially in infrastructure construction and utility services; and (2) solid track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high debt burden and relatively high recovery risk for its account receivables; and (3) high exposure to contingent liability risk due to large external guarantees to local state-owned enterprises (“SOEs”).

The stable outlook on WUCD’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its strategic importance position in Weifang City over the next 12-18 months.

Rating Drivers

- Strategic policy role in regional development of Weifang City, especially in infrastructure construction and utility services
- Medium exposure to commercial activities
- Solid track record of receiving government support
- High debt burden and relatively high recovery risk for its account receivables
- Access to diversified funding channels underpinned by improving financing environment
- High exposure to contingent liability risk due to large external guarantees to local SOEs

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Weifang Municipal 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 improved debt management or lower exposure to contingent liability risk.

What could downgrade the rating?

The rating could be downgraded if (1) Weifang Municipal 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 weakened funding ability.

Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	137.6	135.9	144.9	146.7
Total Equity (RMB billion)	73.6	74.3	81.7	81.7
Total Revenue (RMB billion)	16.8	16.1	13.7	1.8
Total Debt/Total Capital (%)	41.0	39.3	37.8	38.9

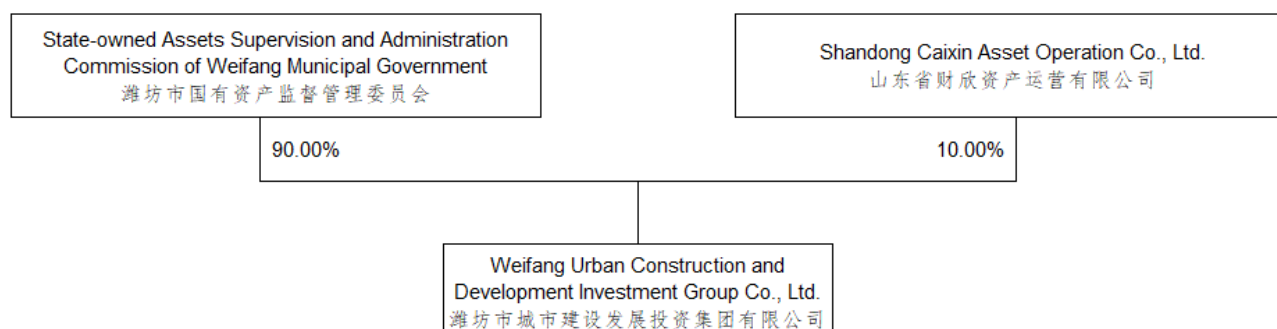
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

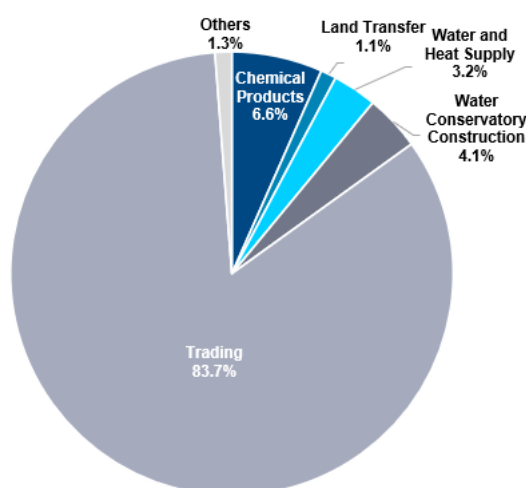
Established in 2016, WUCD is an important entity in the investment and financing of infrastructure construction and the operation and management of state-owned assets in Weifang City, and plays a strong strategic policy role in the regional development of Weifang City. WUCD is responsible for major public policy projects, including infrastructure construction, land transfer, and water and heat supply. It also engages in commercial activities such as water conservatory construction, trading, financial investment, financial services, as well as leasing. As of 31 March 2025, the State-owned Assets Supervision and Administration Commission of Weifang Municipal Government ("Weifang SASAC") directly held 90% ownership of WUCD and the remaining shares were held by Shandong Caixin Asset Operation Co., Ltd. The Weifang Municipal Government was the ultimate controller of WUCD.

Exhibit 1. Shareholding chart as of 31 March 2025



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Weifang Municipal Government has a very strong capacity to provide support given its status as the fourth largest city in Shandong Province by GRP and general budgetary revenue, with good economic and industrial development, but relatively tight regional refinancing pressure.

Shandong Province is the third largest province in terms of GRP in China over the past three years, with a solid industrial foundation in logistics, shipbuilding, and marine technology, chemical, automotive and agri-food. In 2024, Shandong Province reported a GRP of RMB9.9 trillion, representing a year-over-year ("YoY") increase of 5.7%. At the same time, its general budgetary revenue increased to RMB771.2 billion from RMB746.5 billion in 2023.

Weifang City is located in the east-central part of Shandong Province and is an important regional economic center of central Shandong. After years of development, Weifang City has established a series of traditional advantageous industries, including power equipment, high-end chemicals, food processing, automobile manufacturing, textiles and clothing, as well as intelligent agricultural machinery. Meanwhile, Weifang City also actively cultivates emerging industries such as new generation information technology, industrial machine tools, and magnetic levitation. In 2024, Weifang City reported a GRP of RMB820.3 billion, increased by 5.9% YoY,

ranking 4th among prefecture-level cities in Shandong Province. In addition, Weifang City has a strong fiscal base. Its general budgetary revenue increased to RMB62.0 billion in 2024 from RMB60.8 billion in 2023, ranking 4th among prefecture-level cities in Shandong Province. Tax revenue accounted for 62.5% of its general budgetary revenue on average over the past three years. Weifang City also has a healthy fiscal balance as seen by an average fiscal balance ratio (general budgetary revenue/ general budgetary expenditure) of 69.8% over the past three years.

However, Weifang City's government debt level is high, with an outstanding amount of RMB285.4 billion as of 31 December 2024, which accounted for 34.8% of its GRP. The enlarged local government debt level, together with rapidly increasing local SOE debts at county level, has made Weifang City experience a tight financing environment and heightened the funding costs for local SOEs since 2021. Recently, Weifang City was benefited by the strong policy support from its higher-tier government to resolve local debt risks via a package of debt-relief measures at the national level. For example, Weifang Municipal Government has obtained special refinancing fund of RMB19.6 billion in 2023, representing 70% of Shandong Province's quota for the year, and continued to receive special refinancing fund of RMB16.8 billion in 2024. While the short-term liquidity risk in Weifang City has been eased, it is still necessary for Weifang City to conduct sustained debt management and debt-relief measures to achieve sound development of local financing in the medium to long term.

Exhibit 3. Key Economic and Fiscal Indicators of Weifang City

	2022FY	2023FY	2024FY
GRP (RMB billion)	730.6	760.6	820.3
GRP Growth (%)	3.7	5.1	5.9
General Budgetary Revenue (RMB billion)	60.8	60.8	62.0
General Budgetary Expenditure (RMB billion)	84.2	88.9	90.2
Local Government Debt (RMB billion)	191.0	235.9	285.4

Source: Weifang Municipal Government, CCXAP research

Government's Willingness to Provide Support

Strategic policy role in the regional development of Weifang City, especially in infrastructure construction and utility services

WUCD is one of the most important SOEs in Weifang City and plays a strong strategic policy role in the regional development of Weifang City. The Company is commissioned to engage in infrastructure construction, land transfer, and water and heat supply. Weifang Municipal Government consolidated local SOEs into 5 major groups, focusing on urban construction and investment, industrial investment, finance, industrial operation, and asset management, respectively. WUCD is one of the 5 major groups and specializes in urban construction and investment of Weifang City. With the clear positioning of each SOEs, and given the Company's important strategic position to the regional development and public welfare in Weifang City, we believe that the Company is unlikely to be replaced in the short-to-medium term.

WUCD carries out the construction of roads, squares and parks, urban reconstruction and supporting projects, tourist attractions, and water conservancy projects. The sources of funds of infrastructure construction comes from WUCD's own fund, project capital injected from local government, and external financing. As of 31 March 2025, WUCD had invested more than RMB20 billion in key infrastructure construction. However, most of the infrastructure projects have not been settled and the repayment of the projects is uncertain, which has caused relatively great pressure on the Company's capital occupation. Some projects are expected to achieve fund balance through sales, leasing, as well as operating income such as parking fee. At the same time, the Company

participated in the construction of 3 high-speed railway projects, with a total investment of RMB1.1 billion, and the Company is expected to obtain government special-purpose bond for these constructions.

The Company also participated in the transfer of self-owned land. The Company generally acquires consolidated land through bidding and auction prior to 2012 and transfers it to the local land reserve department. From 2024 to 2025Q1, WUCD totally transferred 2 land parcels with an area of 100.0 mu and recorded transferring income of RMB194.5 million. Yet, the payment period for land transfer is long and highly depends on the local government's planning. In addition, the Company has a large amount of land reserves. As of 31 March 2025, the Company had land reserves totalling 7,107.2 mu, with a book value of RMB6.6 billion, which mainly consisted of urban residential land and retail commercial land. However, the business is susceptible to the fluctuation of local land and property markets, causing uncertainty to its land transfer income.

WUCD engages in providing essential public services including water and heat supply. WUCD treats the raw water from the Bailanghe Reservoir and primarily supplies water to the residents and non-residents in the southern parts of Weifang City with daily water supply capacity of 236.0 thousand tons. WUCD is also responsible for the pipe network construction and heating supply to the residents in the main urban area of Weifang City. The Company generally purchases heat from upstream power plants and sells heat to Weifang Thermal Power Co., Ltd. For the heating season of November 2024 to March 2025, the Company totally provided heat of around 8,051.1 thousand GJ. Due to the public nature of water and heat supply business, the business highly relies on government subsidies. In 2024, WUCD continued to receive ongoing subsidies of RMB16.0 million for the heat supply business.

In addition, the Company undertakes the responsibility of centralized borrowing platform for shantytown reconstruction due to its strategic policy role in Weifang City. WUCD mainly receives policy loans from Shandong Finance Investment Group Co., Ltd., a provincial level state-owned capital investment and operation company focusing on the linkage of fiscal and financial policies, and transfers the loans to the shantytown reconstruction entities in districts and counties of Weifang City. The loans for shantytown reconstruction are included in the budgets of district or county government in Weifang City. As of 31 March 2025, the loans for shantytown reconstruction were around RMB4.4 billion.

Medium exposure to commercial activities

Apart from public services, WUCD also engages in diversified commercial activities including water conservatory construction, trading, financial investment, financial services, as well as leasing. We consider WUCD's commercial business exposure to be medium, as the assets in commercial activities accounted for around 15% of the total assets as 31 March 2025.

WUCD participates in water conservatory construction business and generally acquires contracts through public bidding. Its business scope is mainly concentrated in Weifang City, and the counter parties are mainly SOEs and government departments. From 2024 to 2025Q1, the Company newly signed 50 water conservatory construction contracts with the total contract value of RMB820 million. As of 31 March 2025, the Company had 11 key projects under construction with total investment of RMB468.7 million and an uninvested amount of RMB148.5 million. However, the repayment period of conservatory construction is relatively long and the payback collection is relatively prolonged, which may cause certain capital occupation pressure. The Company is also proactively expanding water conservatory construction business to other provinces. For instance, it expands its business scope to Fujian Province and Guangxi Zhuang Autonomous Region in 2024.

Moreover, the Company engages in trading business through Weifang Urban Investment Junhe International Trade Co., Ltd. (“Weifang Urban Investment”), which is the main source of the Company’s operating revenue. WUCD and Shanghai Junhe Group International Trading Co., Ltd. (“Shanghai Junhe”) owns 51% and 49% shares of Weifang Urban Investment, respectively. The main product of trading business is electrolytic copper. In 2024, the revenue from trading business was RMB11.4 billion, accounting for 84.1% of the total revenue, but recording a low gross profit margin of 0.5%. The Company’s concentration risk of downstream customers remained moderate, as the sales from the top five customers accounted for 46.9% of the total sales in 2024.

The Company also engages in chemical products business through its subsidiary, namely Weifang Yaxing Chemical Co., Ltd. (“Yaxing Chemical”, 600319.SH), which mainly includes the production, design, and trade of chlorinated polyethylene and chlor-alkali products. In 2024, Yaxing Chemical achieved total revenue of RMB910.4 million, increasing by 10.4% YoY. However, the net profit turned into a loss in 2024, mainly due to oversupply and intensifying competition in the industry environment of its chlorinated polyethylene products. As of 31 March 2025, the Company had one medical waste disposal project under planning, with a total investment of RMB100 million.

In addition, WUCD conducts financial investment through equity investment and industrial fund investment. The Company’s financial investment primarily focuses on unlisted companies with high growth potential in Weifang City and assists the new and old growth driver transformation and industrial upgrading in Weifang City. As of 31 March 2025, the Company had completed equity investment of nearly RMB10.9 billion. The investment portfolio consists of Bank of Weifang Co., Ltd., Tianrui Magnetic Levitation Intelligent Technology (Shandong) Co., Ltd., and other enterprises. However, long investment period with uncertain returns may expose the Company to higher business risk. In terms of fund investment, the Company had participated and established 3 industrial investment funds with a total scale of RMB615 million as of end-March 2025. The Company plans to obtain appreciation of capital through equity transfer after the well development of invested enterprises. The financial investment business has significant volatility due to the performance of invested companies and change of economic situation.

Solid track record of receiving government support

As the important SOE in Weifang City, WUCD has a solid track record of receiving government support from Weifang Municipal Government, including government subsidies, capital injection, asset and equity transfer, which could help the Company meet its policy objectives and financial obligations. In 2024, the local government transferred 46.6% equity interests of Weifang Cultural Tourism Development Group Co., Ltd. to the Company without compensation, greatly enhancing its capital strength. The Company also continued to receive ongoing government subsidies for carrying out infrastructure construction projects and utility services. From 2024 to 2025Q1, WUCD has received government subsidies with a total amount of approximately RMB709.1 million. In addition, the Company received special refinancing fund of RMB300 million from the local government for debt swap in 2024.

Considering WUCD’s irreplaceable role in the development and public welfare of Weifang City and its close relationship with Weifang Municipal Government, we expect that the Company will continue to receive government support over the next 12 to 18 months.

High debt burden and relatively high recovery risk for its account receivables

Due to the ongoing financing for its infrastructure construction and financial investment, WUCD maintained a high level of debt burden over the past three years. As of 31 March 2025, the Company’s total debt increased

to RMB52.1 billion from RMB48.1 billion as at end-2023, while its total capitalization ratio decreased slightly to 38.9% from 39.3% over the same period due to the equity transfer from local government. Over the past year, the Company's debt maturity structure has improved and its short-term debt pressure has partially eased after refinancing, as the Company issued medium-term and long-term bonds to replace its maturing short-term debts. However, the Company still bears a relatively high short-term debt repayment pressure as its short-term debt accounted for 34.2% of the total debt as at 31 March 2025, decreasing from 54.2% as at 31 March 2024. Meanwhile, the cash to short-term debt ratio was only 0.2x, which could not fully recover its short-term debt. Given WUCD's ongoing capital needs for construction projects and business, especially in the public utilities of main urban area and industrial Investment, we estimate that the Company's debt level will continue to grow and maintain high in the next 12 to 18 months.

In addition, WUCD's asset liquidity is relatively weak, which may undermine its financial flexibility. The Company's total assets mainly consist of investment in other equity instruments, construction in progress, long-term receivables, and long-term equity investment, accounting for around 71.0% of the total assets as of 31 March 2025. These assets mainly include the shares of local SOEs, equity investment of local private-owned enterprises, construction cost of infrastructure construction, lending to local SOEs, receivable payment of land transfer, which are considered low liquidity. Weak asset liquidity may also undermine the Company's financing flexibility. Moreover, as some debtors of other receivables are judgment defaulters and have outstanding overdue payments for the commercial bills, the Company would bear relatively high recovery risk. These debtors are mainly the SOEs in counties or districts of Weifang City. Under the authorization of Weifang Municipal Government, WUCD provides loans to ease the liquidity distress of the regional SOEs and the majority of these loans are secured loan with collaterals.

Access to diversified funding channels underpinned by improving financing environment

WUCD has good access to diversified financing channels, including bank loans, domestics and offshore bond financing, and non-standard financing products. Bond issuance and bank loans account for majority of its total debt. The Company's financing needs may be partially released by its multiple access to funding. The Company has built and maintained close relationship with state-owned commercial banks and joint-stock commercial banks. As of 31 March 2025, the Company had obtained total credit facilities of RMB47.8 billion, with an unutilized amount of RMB18.0 billion, indicating sufficient standby liquidity.

The Company also has a track record of fund-raising activities in both onshore and offshore debt capital markets. It has issued various bond products such as MTNs, PPNs, and corporate bonds. From January to June 2025, the Company has raised around RMB6.0 billion on the onshore debt market through 10 tranches of debt instruments, with coupon rates ranging between 2.25% and 3.45%. In addition, the Company issued two tranches of offshore bonds in 2024, raising USD270 million and RMB923 million, respectively. However, the Company has a relatively high reliance on direct financing, accounting for approximately 60% of the total debt. Its refinancing stability is easily affected by the fluctuations in the capital market conditions. In addition, WUCD's exposure to non-standard financing products has decreased, which accounted for around 9% of the total debt as of 31 March 2025. Considering WUCD's important status in the regional development of Weifang City, we expect the Company would maintain stable funding access to bank loans and capital markets in the next 12 to 18 months.

High exposure to contingent liability risk driven by large external guarantees to local SOEs

WUCD's exposure to contingent liability risk is highly driven by large external guarantees to local SOEs. As of 31 March 2025, the total amount of external guarantees was RMB12.5 billion, which accounted for 15.3% of its

net assets. The majority of these external guarantees were provided to local SOEs in Weifang City, and small amount of guarantees (13.7%) were provided to private-owned enterprises. Part of its external guarantees has counter-guarantee measures. However, some of the guaranteed enterprises especially the SOEs in districts or counties of Weifang City have records of judgment defaulters, overdue of commercial bill, and debt overdue. We consider WUCD has relatively large contingent liability risk, even though the Company had not yet incurred compensation for its guarantees as of 31 March 2025. As of 16 June 2025, some of WUCD's guarantees were classified as special-mentioned loans with a total amount of RMB2.9 billion.

We believe that the contingent liability risk will be partially mitigated by WUCD's improving external guarantee management and more prudent measures on new external guarantees. The Company established its external guarantee policy in 2023, according to the guidance of Weifang SASAC. For example, the amount of a single guarantee shall not exceed 10% of WUCD's audited net assets in the previous year or RMB200 million, otherwise it has to obtain the consent from Weifang Municipal Government.

ESG Considerations

WUCD is exposed to environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

WUCD bears social risks as it implements public policy initiatives by undertaking infrastructure construction and providing utility services in Weifang City. 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.

WUCD's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, reflecting its public-policy role and status as a government-owned entity.

Structural consideration

WUCD's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic importance position in regional development of Weifang City, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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