

Credit Opinion

11 July 2024

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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Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.'s long-term credit rating at A_g⁻, with stable outlook.

Summary

The A_g⁻ long-term credit rating of Qingdao West Coast New Area Ronghe Holding Group Co., Ltd. ("Ronghe Holding" or the "Company") 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 Company's characteristics.

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 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.

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.

Rating Drivers

- Strong strategic role in undertaking public policy projects in the development of the QDWC New Area
- Undertaking major public policy activities in mandated areas, with sufficient project reserves
- Good track record of receiving government payments
- Diversified and stable funding sources from major banks and bond markets
- High exposure to commercial activities
- Risk exposure to regional private-owned enterprises during market downturn

Rating Sensitivities

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.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	144.4	199.3	234.9	246.4
Total Equity (RMB billion)	44.7	60.3	63.9	66.0
Total Revenue (RMB billion)	29.1	38.6	49.5	11.8
Total Debt/Total Capital (%)	66.7	66.7	69.2	69.8

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

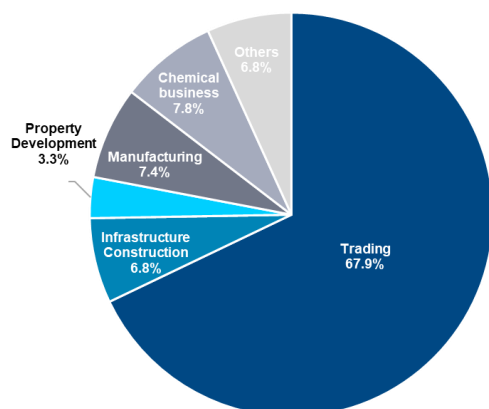
Source: Company data, CCXAP research

Corporate Profile

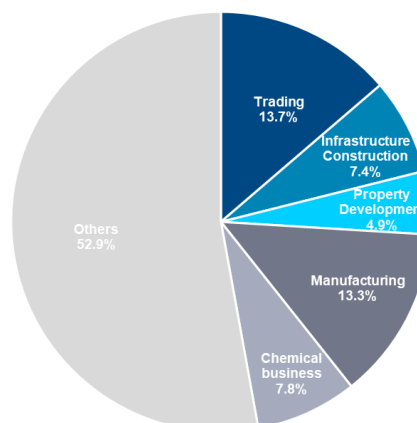
Founded in November 2018, Ronghe Holding is one of the two major local infrastructure investment and financing companies ("LIIFCs") in the QDWC New Area. It was directly and wholly owned by the Qingdao West Coast New Area State-owned Assets Administration Commission ("QDWC New Area SAAC") as of 31 March 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.

Exhibit 1. Shareholding chart as of 31 March 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe the local government of the QDWC New Area has a very strong capacity to provide support given the status of QDWC New Area as the ninth National New Area and the local government's strong economic strength and good fiscal metric.

Shandong Province is the third largest province in China by gross regional products, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It recorded a GRP of RMB1,576.0 billion in 2023, ranking first in Shandong Province and 13th among China's municipalities. Qingdao City also has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70% of its general budgetary expenditure, and tax incomes accounted for more than 70% of its general budgetary revenue on average. As of end-2023, the local government's debt/GRP ratio was 23.0%.

Exhibit 4. Key economic and fiscal indicators of Qingdao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,413.6	1,492.1	1,576.0
GRP Growth (%)	8.3	3.9	5.9
General Budgetary Revenue (RMB billion)	136.8	127.3	133.8
General Budgetary Expenditure (RMB billion)	170.7	169.6	171.9
Local Government Debt (RMB billion)	255.9	308.0	362.0

Source: Qingdao Municipal Government, CCXAP research

The QDWC New Area (Huangdao District) is the ninth national new area established with the approval of the State Council of China in 2014. In 2023, the GRP of the QDWC New Area was RMB500.3 billion, representing more than 30% of Qingdao's GRP and ranking third among national new areas in China after Pudong New Area and Binhai New Area. The QDWC New Area is an important and advanced manufacturing base and an emerging marine industry cluster. It has cultivated and formed six hundred-billion industrial clusters, namely automobile manufacturing, home appliances and electronics, petrochemicals, marine engineering, machinery and equipment, and shipping and logistics, while having more than 10 functional areas at the same time. The QDWC New Area had good fiscal balance and debt profile, with a high general budgetary revenue/general budgetary expenditure of 94.8% and a low direct government debt/GRP ratio of 12.3% as of 31 December 2023.

Exhibit 5. Key economic and fiscal indicators of the QDWC New Area

	2021FY	2022FY	2023FY
GRP (RMB billion)	436.9	469.2	500.3
GRP Growth (%)	10.3	4.8	6.0
General Budgetary Revenue (RMB billion)	26.1	22.4	23.1
General Budgetary Expenditure (RMB billion)	25.5	24.2	24.4
Local Government Debt (RMB billion)	38.8	53.3	61.4

Source: Statistics Bureau of QDWC New Area, CCXAP research

Government's Willingness to Provide Support

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. It has a high business position in the QDWC New Area and assumes a significant part of local public projects such as infrastructure construction and resettlement housing. The Company takes part in local infrastructure construction in four key functional areas, including Qingdao Economic and Technological Development Zone, Qingdao Guzhenkou Military-civilian Integration Innovation Demonstration Zone, Qiaotoubao Business Zone and China-Japan Cooperation Demonstration Zone. It is also entrusted by the QDWC New Area SAAC to undertake land consolidation work in the QDWC New Area. Ronghe Holding is currently the third largest LIIFC in Qingdao City and the largest LIIFC in the QDWC New Area in terms of asset size. 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. The success of the QDWC New Area is also important to the municipal and national strategy.

Undertaking major public activities in mandated areas, with sufficient project reserves

Ronghe Holding's primary public activities include construction projects for roads, schools, and resettlement housing in the QDWC New Area, which cooperate with the local government's investment promotion plans. These projects are essential to local economic development and provide benefits to the general public as well as local employment. The Company has completed many important infrastructure projects, including the construction or upgrade of educational buildings, sewage treatment plants, heat source plants, and resettlement housing. Sufficient project reserves could ensure the sustainability of the Company's business, but also bring certain capital expenditure pressure to the Company.

Ronghe Holding mainly engages in infrastructure construction through the agency construction model. The government will pay the total cost plus a few percentage markups after examining the projects, according to the agreement signed between the two parties. The Company has large construction projects and sufficient project reserves. Key construction projects in the QDWC New Area include the Wangtai New Motion Energy Industrial Base, the Municipal Roads Construction in Transformation Development Area, QDWC New Area Traffic and Business District Infrastructure Construction Project, and some educational infrastructure construction projects. As of 31 December 2023, the total investment amount for projects under construction was RMB44.4 billion, with an outstanding investment amount of RMB8.6 billion. The Company has one planned construction project for a technology equipment and innovation industrial park in the Guzhenkou Integration Zone and some educational building projects, with an estimated investment of RMB5.1 billion.

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. The visibility of payment mechanism is expected to improve as the Company has signed payment contracts with the government for some educational infrastructure construction projects, and the total payment and annual payment become more transparent. Over the past years, government payments have steadily increased as the Company expanded in size.

In addition, in 2023, the Company received cash injection and asset injection from the local government of around RMB4.6 billion and RMB525.4 million respectively, including operating subsidies, construction project funds, allowances and government special bonds. As a result of the continuous injection, the Company's paid-in capital and capital reserve increased from RMB341.3 million and RMB36.7 billion at the end of 2022 to RMB1.0 billion and RMB37.7 billion at 31 December 2023, respectively. We expect government payments to Ronghe Holding to continue to increase over the next 12 to 18 months, given its strong public policy role and large scale of public projects under construction and planning.

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.

Ronghe Holding's commodity trading business has expanded rapidly, and its products include coal, metals, agricultural products, and building materials. Its trading revenue increased rapidly from RMB21.7 billion in 2021 to RMB33.6 billion in 2023. The large trading volume exposes the Company to price risk and counterparty risk. The gross profit margin of commodity trading is low, recording 1.6% in 2023, and the concentration in upstream and downstream industries is high, indicating a certain business risk.

Ronghe Holding also develops residential, commercial, and industrial properties in the QDWC New Area. The Company has an advantage in obtaining local high-quality real estate projects and is able to generate decent profits from property sales. As of 31 March 2024, the Company had 9 major property projects under construction

with a total planned investment of RMB10.8 billion and outstanding investment of RMB3.4 billion. The Company also had 2 property projects in the planning stage with an estimated investment of RMB1.2 billion. In addition, as of the end of 2024Q1, there were 4 key industrial parks projects under construction, which are expected to achieve funding balance through leasing. These projects still require an investment amount of RMB5.1 billion in the future, indicating a high capital expenditure. We consider property development business will be at risk due to the current instability in the property market. The Company also operates some property projects for leasing such as schools, hotels, commercial centers, and logistic buildings. Ronghe Holding's school projects are leased by the government with long-term tenancy agreements, which are deemed to have relatively low business risk.

The Company also entered into chemical business in 2023 through the acquisition of Shida Shinghwa Advanced Material Group Co., Ltd. ("Shida Shinghwa", stock code: 603023.SH), which expanded the Company's business scope. This business mainly engaged in the production and sale of basic organic chemicals, such as carbonate ester products, lithium hexafluorophosphate, special additives for electrolytes. As of end-2023, Shida Shinghwa had 375 valid patents, and the chemical business generated revenue of RMB3.9 billion in 2023, contributing 7.81% of the Company's total revenue. However, the profitability was moderate, with a gross profit of less than 10% in 2023. The Company also had 8 key projects under construction with a total planned investment of RMB4.7 billion, and an outstanding amount of RMB2.3 billion at the end of 2023, mainly self-funded by Shida Shinghwa. These projects can further increase the production capacity when completed.

Ronghe Holding is engaged in manufacturing businesses such as marine, concrete, casting, and high-end equipment production, which are relatively small in scale. The Company's manufacturing businesses are mainly guided by the QDWC New Area Government, with an aim to support the development of local industries. For example, in 2019, Ronghe Holding acquired 51% shares in Penglai Zhongbai Jinglu Vessel Industry Co., Ltd., a local marine manufacturing company. In 2022, it also acquired 27% shares in Taihai Manoir Nuclear Equipment Co., Ltd. ("Taihai Nuclear", Stock Code: 002366.SZ), participating in the high-end equipment machinery manufacturing business. In 2023, Taihai Nuclear contributed operating income of RMB584 million in the Company's manufacturing sector. However, it will also bear higher operational risk in cyclical industries.

In addition, the Company participates in some industrial funds and makes equity investments to support the development of local emerging industries. The equity investment is mainly focused on agriculture and new materials industries. The Company plans to exit its investments through IPO listing or project repurchases. However, most of the investments require a long holding period, which may expose the Company to larger investment and execution risks.

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. For example, the Company made a bad debt provision of RMB478.3 million for Yantai Manoir Heat Resistant Alloys Co., Ltd. The Company also provides financial services such as guarantees, small-sum loans, pawning and financial leasing, to local private-owned companies with relatively high asset risks. As of 31 December 2023, a total of 14 compensations was made for the guarantee business, with a total amount of round RMB84.2 million. Meanwhile, the total amount of non-performing assets of the loans and pawning were RMB420.7 million and RMB38.0 million, respectively. The non-performing ratio of financial

leasing was 4.37% at the end of 2023. Moreover, the Company also provided external guarantees of around RMB332.8 million to local private-owned enterprises, which accounted for approximately 0.5% of its net assets as of end-2023.

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. As of 31 March 2024, the Company's total debt increased to RMB151.3 billion from RMB116.2 billion as of end-2022. The accelerated debt growth was driven by continuous investment in infrastructure construction and real estate projects. Among them, loans from financial institutions accounted for the majority of Ronghe Holding's total debt, mainly provided by diversified domestic banks including policy banks such as China Development Bank, the Export-Import Bank of China, and large state-owned commercial banks such as Bank of China, Industrial and Commercial Bank of China Limited, which are stable sources of funding. In addition, the Company had large amount of total credit facilities of RMB131.6 billion as of 31 March 2024, of which RMB50.2 billion were undrawn.

Ronghe Holding also has good access to the onshore and offshore debt capital markets. It has issued different financial products in the onshore bond market such as commercial papers, MTNs, private placement notes, and asset-backed notes. From January 2023 to June 2024, the Company (excluding its subsidiaries) raised over RMB9.6 billion in the onshore bond market, with coupon rates ranging from 2.7% to 4.7%. The Company also issued 5 tranches of Free Trade Zone bonds with total amount of around RMB2.0 billion and coupon rates of 4.38% to 5.4%. Ronghe Holding has moderate exposure to shadow banking lending, which accounted for 10%-15% of its debts as of 31 March 2024, which mainly consisted of financing leasing, loans from trusts, and asset management firms. Nevertheless, this exposure is manageable as the Company has clear internal control over high-cost financing channels, and maintains a moderate cost in non-standard products.

ESG Considerations

Ronghe Holding assumes 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.

Ronghe Holding is involved in educational infrastructure construction and surrounding support facilities, which help the government to attract targeted talent to build an International Ocean Talent Port. The Company is also exposed to social risks as a public services provider. Demographic changes, public awareness, and social priorities shape the government's target for Ronghe Holding and affect the government's propensity to support the Company.

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

Structural Consideration

Ronghe Holding'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 role in undertaking public policy projects in the QDWC New Area, 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 \(July 2022\)](#).

Appendix

Exhibit 6. Key functional areas of the QDWC New Area



Source: Company information, CCXAP Research

Exhibit 7. Peer comparison

	Qingdao West Coast New Area Ronghe Holding Group Co., Ltd.	Qingdao West Coast New Area Ocean Holdings Group Co., Ltd.
Long-Term Credit Rating	Ag-	Ag-
Shareholder	Qingdao West Coast New Area State-owned Assets Administration Commission (100%)	Qingdao West Coast New Area State-owned Assets Administration Commission (100%)
Positioning	Key entity to focus on the provision of major infrastructure construction, resettlement housing and educational projects in the QDWC New Area	Key entity to carry out major infrastructure construction and primary land consolidation projects in the QDWC New Area.
Total Asset (RMB billion)	234.9	191.8
Total Equity (RMB billion)	63.9	66.6
Total Revenue (RMB billion)	49.5	51.3

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company information, CCXAP research

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