

Qingdao City Construction Investment (Group) Limited

Surveillance Report

Summary

Issuer Rating	A
Outlook	Positive
Location	China
Industry	Local Investment and Development Companies
Date	6 April 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘A’ global scale Long-term Issuer and Issuance Credit Rating of Qingdao City Construction Investment (Group) Limited (“QCCI”); Issuer Rating Outlook Revised to Positive

Summary

The Issuer Rating reflects a high possibility that the Qingdao Municipal Government (“Qingdao government”) would provide strong support to QCCI if needed, in light of the Qingdao government’s full ownership of QCCI, the high strategic importance of QCCI to Qingdao and the strong linkage between the Qingdao government and QCCI, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions, and ongoing government support. In addition, the Qingdao government may face significant negative impact on its reputation and financing activities should QCCI encounter any operational or financial difficulties.

Lianhe Global has also affirmed ‘A’ global scale Long-term Issuance Credit Rating to the senior unsecured USD bonds issued by QCCI’s wholly-owned subsidiary Hongkong International (Qingdao) Company Limited (“HKIQD”) at the same time. QCCI shows its strong willingness to support HKIQD in meeting its debt obligations by offering a keepwell deed, a deed of equity interest purchase undertaking and an irrevocable standby facility agreement. A full list of affirmed issuance rating is included in this report.

The Positive Outlook reflects the company’s increasing strategic importance in Qingdao and linkage with the Qingdao government with the role as Qingdao’s important urban comprehensive development and operating entity, our internal assessment on the Qingdao government, and the expectation that it will continue to ensure QCCI’s stable operation.

Rating Rationale

Qingdao Government’s Full Ownership and Supervision: The Qingdao government has 100% ownership of QCCI via the State-owned Assets Supervision and Administration Commission of Qingdao (“Qingdao SASAC”). The Qingdao government and Qingdao SASAC has strong control and supervision over QCCI, including appointment and supervision of the senior management and the supervisory committee, strategic alignment and major investment and financing plan decisions. In addition, the Qingdao government has formulated a performance appraisal policy for QCCI, and regularly appoints auditors to review the its operating performance and financial position.

High Strategic Importance and Strategic Alignment: QCCI is still the largest (in terms of asset size and operating revenue) and most important state-owned asset management and operation, as well as infrastructure construction and investment platform in Qingdao. QCCI plays an important role in urban renewal and urban development in Qingdao, particularly in some significant municipal projects and transportation infrastructure projects. QCCI is also a state-owned assets operating platform that to guide and promote the local industrial and economic development. In addition, with its development of new energy and water business, QCCI will be positioned as the leading state-owned company in the field of new energy power generation and water business in Qingdao. QCCI’s strategic planning and development have been aligned with the national and local government’s development plan,

Key Figures of Qingdao and QCCI

(RMB billion)	2021	2022
Qingdao		
GDP	1,413.6	1,492.1
GDP growth rate (%)	8.3	3.9
Budgetary revenue	136.8	127.3
Budgetary expenditure	170.6	169.6
QCCI	2021	2022.9
Assets	446.9	425.6
Equity	164.1	157.8
Revenue	40.2	28.3

Source: Public information, QCCI and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

with the role as Qingdao's important urban comprehensive development and operating entity.

Ongoing Government Support: QCCI enjoys a prominent position in state-owned entities in Qingdao and continues to receive strong support from the Qingdao government and Shandong Provincial Government. QCCI has persistently received subsidies from the government mainly for supporting projects related to public infrastructure construction, business operation and social welfare services. QCCI continually received a total amount of c. RMB7.6 billion of government subsidies in 2021 and 2022, including operating subsidies, rewards, special funds, tax benefits and refunds, etc. Given QCCI's role and strategic importance, we believe that it is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

QCCI's Financial and Liquidity Position: At end-September 2022, QCCI's financial leverage was 62.93%, which slightly decreased from 63.29% at end-2021. QCCI's asset structure remained diversified, of which the non-current assets accounted for c. 71.1% of its total asset at end-September 2022, while the asset liquidity of QCCI was moderate as it had a number of investment (i.e., debt and equity investment) that could be realizable if needed. QCCI's total debt was c. RMB222.9 billion, of which the short-term and long-term debt accounted for 32.9% and 67.1%, respectively, at end-September 2022. QCCI's liquidity was sufficient as it had cash of RMB22.6 billion and total credit facilities of RMB186.4 billion with unused amount of RMB106.6 billion at end-September 2022, compared with its outstanding debt of RMB73.3 billion to be due within one year.

Economy and Fiscal Condition of Qingdao: The total GDP of Qingdao remained the highest among all cities in Shandong Province in 2022. It realized GDP of c. RMB1,492.1 billion in 2022, representing a year-on-year growth rate of 3.9%. Qingdao's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. In 2022, affected by the extraordinary value-added tax (VAT) credit refund policy, the budgetary revenue of Qingdao was c. RMB127.3 billion and the percentage of tax revenue decreased. Qingdao's had a total outstanding debt amount of approximately RMB308 billion at end-2022, including RMB102 billion of general obligations and RMB206 billion of special debt.

Rating Sensitivities

We would consider downgrading QCCI's rating if (1) there is perceived weakening in support from the Qingdao government, particularly due to its reduced strategic importance with diminished government functions, or (2) commercial-oriented operations may significantly jeopardize QCCI's overall credit profile, or (3) there is a significant reduction of the Qingdao government's ownership of QCCI, or (4) there is a downgrade in our internal credit assessment on the Qingdao government.

We would consider upgrading QCCI's rating if (1) there is an upgrade in our internal credit assessment on the Qingdao government, or (2) there is strengthened support from the Qingdao government, or (3) there is a continuing demonstration of the strengthening of QCCI's strategic importance in Qingdao.

Any rating action on QCCI's rating would result in a similar rating action on the USD bonds.

Company Profile

QCCI was established in May 2008 under the approval of the Qingdao government. The Qingdao SASAC is the only shareholder with 100% ownership of QCCI, and the Qingdao government is the ultimate controller.



QCCI is the largest local investment and development company in Qingdao that conducts various business such as urban construction and development, new energy business, industrial business, trading business, transportation business, financial business and other state-owned assets operation in the region. QCCI's business expansion has targeted to benefit Qingdao's development rather than pure commercial decisions. QCCI has played an important role for the urban and economic development of Qingdao, and has received ongoing support from the Qingdao government including but not limited to assets and capital injection, equity transfers, financial subsidies and business rewards, etc.

Full List of Issuance Ratings

A full list of issuance ratings is included below. Any rating action on QCCI's rating would result in a similar rating action on the USD bonds:

- USD300 million 4.0% senior unsecured bonds due 2024 affirmed at 'A'
- USD300 million 3.99% senior unsecured bonds due 2023 affirmed at 'A'
- USD750 million 4.8% senior unsecured bonds due 2025 affirmed at 'A'

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