

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Qingdao Haike Holdings Co., Ltd.

HONG KONG, 11 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Qingdao Haike Holdings Co., Ltd. (“QHH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jimo District, Qingdao City (“Jimo government”) would provide strong support to QHH if needed, in light of its indirect full ownership of QHH, QHH’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and asset maintenance and management in Jimo District, Qingdao City (“Jimo”), especially in the Qingdao Oceantec Valley (“Oceantec Valley”), and the linkage between the Jimo government and QHH, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Jimo government may face significant negative impact on its reputation and financing activities if QHH encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that QHH’s strategic importance would remain intact while the Jimo government will continue to ensure QHH’s stable operation.

Key Rating Rationales

Jimo government’s Ownership and Supervision: The Jimo government indirectly holds 100% ownership of QHH through the Qingdao Oceantec Valley Authority (“Qingdao OVA”), and is the actual controller of the company. The Jimo government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Jimo government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Jimo and Strategic Alignment: QHH, as the main implementation body for infrastructure construction and asset maintenance and management in Jimo, is primarily responsible for the infrastructure construction projects in Jimo, especially in the Oceantec Valley, as well as the asset management, operation, value maintenance and appreciation of state-owned asset within the area, with strong franchised advantages. QHH plays an important role in promoting the economic and social development and of Jimo and Oceantec Valley. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: QHH received operational and financial support from the government. QHH received subsidies from the local government from 2020 to 2022, mainly including operating subsidies. Meanwhile, the Jimo government continued to inject cash, engineering assets, equity and other assets into QHH through the Qingdao OVA to expand its asset size. Besides, the government will repurchase some infrastructure construction projects and provide policy supports to QHH to ensure its business operation. Given the franchise advantages in infrastructure construction in OceanTec Valley, QHH has advantage to obtain the major projects. We believe QHH is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

QHH's Financial Matrix and Liquidity Position: QHH's total assets showed a continuous growth trend in the past years and reached RMB37.6 billion at end-2022 mainly due to the increase of long-term equity investment. The current assets of QHH accounted for c. 73.1% of the total assets at end-2022, but the overall assets were less liquid due to high development cost and large-scale receivables. QHH's financial leverage (total liabilities to assets) remained stable at c. 45.6%-48.1% from end-2019 to end-2022. QHH's adjusted total debt increased to c. RMB14.4 billion at end-2022. The liquidity of QHH was tight. At end-2022, QHH had unrestricted cash balance and unused credit facilities of c. RMB129.3 million and RMB310 million, respectively, compared with its debt due within one year of c. RMB4.5 billion at the same time. Having said that, QHH has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Jimo: Jimo is located in the north of the Qingdao City ("Qingdao"). It is one of the seven urban districts of Qingdao. Jimo recorded an economic growth in 2022, achieving a GDP of c. RMB151.3 billion, with a year-on-year growth of 2.6%. Its total GDP ranks third among all districts and counties in Qingdao. The aggregate fiscal revenue of the Jimo government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Jimo government decreased to c. RMB10 billion due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income dropped to c. RMB5.8 billion in 2022 from c. RMB12.2 billion in 2021. The budget deficit increased to -33.5%, while the debt ratio (i.e., total government debt divided by aggregate revenue) of the Jimo government increased to 80.4% at end-2022.

Rating Sensitivities

We would consider downgrading QHH's rating if (1) there is perceived weakening in support from the Jimo government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Jimo government's ownership of QHH, or (3) there is a downgrade in our internal credit assessment on the Jimo government.

We would consider upgrading QHH's rating if (1) there is strengthened support from the Jimo government, or (2) there is an upgrade in our internal credit assessment on the Jimo government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this QHH's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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