

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Qingdao Development Zone Investment and Construction Group Co., Ltd.

HONG KONG, 27 October 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Qingdao Development Zone Investment and Construction Group Co., Ltd. (“QDZIC” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of West Coast New Area, Qingdao City (“West Coast New Area government”) would provide strong support to QDZIC if needed, in light of its indirect full ownership of QDZIC, QDZIC’s strategic importance as the key local investment and development company (“LIDC”) responsible for infrastructure construction and state-owned asset management in the West Coast New Area, Qingdao City (“West Coast New Area”), especially in the Qingdao Economic and Technological Development Zone (“Qingdao EDZ”), and the linkage between the West Coast New Area government and QDZIC, including management appointments, strategic alignment, supervision of major investment and financing plans and ongoing operational and financial support. In addition, the West Coast New Area government may face significant negative impact on its reputation and financing activities if QDZIC encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that QDZIC’s strategic importance would remain intact while the West Coast New Area government will continue to ensure QDZIC’s stable operation.

Key Rating Rationales

West Coast New Area Government’s Ownership and Supervision: The West Coast New Area government holds 100% ownership of QDZIC through the Qingdao West Coast New Area State-owned Assets Administration and other LIDCs in the region. The West Coast New Area government has the final decision-making authority and supervision over the company, including management appointments, strategic development and investment planning, and major funding decisions. In addition, the West Coast New Area government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to West Coast New Area and Strategic Alignment: QDZIC, as the main implementation entity for infrastructure construction in Qingdao EDZ, plays an important role in promoting the economic development of the region. It undertakes the vast majority of the infrastructure projects in Qingdao EDZ. The company is also responsible for the industrial park operation, urban service operation, area development, culture and tourism development

within Qingdao EDZ with strong regional advantages. QDZIC's business operation and development have been aligned with the government's development plans.

Ongoing Government Support: QDZIC continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company's strategic role in the economic development of the West Coast New Area and Qingdao EDZ. In 2020-1H2023, QDZIC received subsidies totaling around RMB60.4 million. Meanwhile, the company received project assets (such as shantytown redevelopment projects), fiscal funds, government debt-to-loan funds, and capital injections from the West Coast New Area government. Besides, the West Coast New Area government provides tax deductions and policy supports to QDZIC.

QDZIC's Financial and Liquidity Position: QDZIC's total assets more than doubled to RMB42.0 billion at end-1H2023 from RMB18.1 billion at end-2020. The increase in QDZIC's total assets was primarily due to the higher current asset from the start of several infrastructure projects. Although QDZIC's current assets accounted for a significant portion of total assets (about 70.6% at end-1H2023), overall asset liquidity was weak due to its high development costs. QDZIC's total adjusted debt increased significantly to RMB21.4 billion at end-1H2023 from RMB8.5 billion at end-2020. QDZIC mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to continue.

The liquidity of QDZIC was sufficient. At end-June 2023, QDZIC had unrestricted cash balance and unused credit facilities of RMB3.6 billion and RMB7.6 billion, respectively, compared with its debt due within one year of RMB7.7 billion. Besides, QDZIC has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of West Coast New Area: The West Coast New Area is located in the southwest of the Qingdao City. It is one of the seven urban districts of Qingdao. West Coast New Area recorded an economic growth in 2022, achieving a GDP of RMB469.2 billion, with a year-on-year growth of 4.8%. Its total GDP ranks first among all districts and counties in Qingdao. The aggregate fiscal revenue of the West Coast New Area government was mainly derived from the budgetary revenue and government fund income.

In 2022, the budgetary revenue of the West Coast New Area government reached RMB22.4 billion, but the tax revenue decreased due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income was more volatile, dropping to RMB19.5 billion in 2022 from RMB25.6 billion in 2021. The fiscal self-sufficiency rate of the West Coast New Area government was sufficient, but it recorded budget deficit of 8.0% in 2022, the first budget deficit in the past few years. Given that the West Coast New Area government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 107.8% at end-2022 from 19.6% at end-2018.

Rating Sensitivities

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

We would consider upgrading QDZIC's rating if (1) there is strengthened support from the West Coast New Area government, or (2) there is an upgrade in our internal credit assessment on the West Coast New Area 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 QDZIC'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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