

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

HONG KONG, 21 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Qingdao OceanTec Valley Investment and Development Group Co., Ltd. (“QDOV” 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 (“the Jimo government”) would provide strong support to QDOV if needed, in light of its indirect full ownership of QDOV, QDOV’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for infrastructure construction and maintenance in Jimo District (“Jimo”), especially in the core area of Qingdao OceanTec Silicon Valley (“OceanTec Valley”), and the linkage between the Jimo government and QDOV, including appointment of the senior management, strategic alignment, supervision of major investment and financing plans and ongoing operational and financial support. In addition, the Jimo government may face significant negative impact on its reputation and financing activities if QDOV encounters any operational and financial difficulties.

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

Key Rating Rationales

Jimo Government’s Ownership and Supervision: Qingdao Blue Valley Management Bureau (“Management Bureau”) holds 100% shares of QDOV on behalf of Qingdao Jimo District State-owned Asset Operation and Service Center (“Jimo SAOSC”), the company’s actual controller. The local government has strong control and supervision over 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 appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Jimo and Strategic Alignment: QDOV is an important LIDC responsible for infrastructure construction and maintenance in Jimo, especially in the core area of Blue Valley. The company’s business operation plays a significant role in urban development within the region. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: QDOV receives ongoing support from the local government. The local government provided operational subsidies of RMB550 million between 2020 and

2022 to QDOV to support its operations. The local government also injected cash capital and project fund amounting to RMB100 million and RMB1,755 million, respective, into the company over the same period. In addition, QDOV received assets such as sea area use rights, franchise rights of tourism, parking lots and advertisement and trees from the local government, which could generate stable operational and rental incomes. We expect the support from the local government to remain intact given QDOV's strategic importance.

Economy and Fiscal Condition of Jimo and Blue Valley: Jimo is one of the seven urban districts of Qingdao. Jimo recorded an economic growth in 2022, achieving a GDP of RMB151.3 billion, with a year-on-year growth of 2.6%. Its total GDP ranks third among 20 districts and counties in Qingdao. Blue Valley, formerly known as Jimo High-tech Zone, was established in January 2001 and renamed as the present one in November 2017. With a total planned land and sea area of 443 square kilometers, Blue Valley features marine high-tech R&D and industrial clusters.

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 RMB10 billion (2021: RMB11.6 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 RMB5.8 billion in 2022 from RMB12.2 billion in 2021. The budget deficit increased to 33.5% in 2022 from 10.2% in 2021, while the debt ratio (i.e., total government debt divided by aggregate revenue) of the Jimo government increased to 80.4% from 39.

QDOV's Financial and Liquidity Position: QDOV's total asset surged to RMB41.6 billion at end-September 2023 from RMB21.7 billion at end-2020, mainly due to the local government's large-scale asset injections over the same period. The company also relied on borrowings to funds its project development within the core area of Blue Valley, lifting the total debt to RMB4.2 billion at end-September 2023, as compared with RMB720 million at end-2020. Yet the company's financial leverage, as measured by debt/capitalization stayed at a relatively low level of 10.4% at end-September 2023.

QDOV's asset liquidity was relatively weak, as the company had accumulated sizable inventories of RMB18.7 billion (mainly construction costs) and receivables (including other receivables) (mainly due from government agencies and other SOEs in Jimo) of RMB7.7 billion, from its project development activities, representing 45.0% and 18.5% of total asset end-September 2023, respectively. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

QDOV's short-term debt serving pressure was moderately high. At end-September 2023, the company had cash balance of c. RMB555 million (including restricted cash of RMB486 million), while it had debt due within one year of RMB2.3 billion. Yet the company has access to various financing channels, including bank borrowings and bond issuances, to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB2.1 billion at end-2023.

Rating Sensitivities

We would consider downgrading QDOV'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 QDOV, or (3) there is a downgrade in our internal credit assessment on the Jimo government.

We would consider upgrading QDOV '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 QDOV'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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