

Qingdao Jiaozhou Bay Development Group Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer and Issuance Credit Rating of Qingdao Jiaozhou Bay Development Group Co., Ltd. (“JZBD” or “the company”); Issuer Rating Outlook Stable

Summary

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

Lianhe Global has also affirmed ‘BBB+’ global scale Long-term Issuance Credit Rating of senior unsecured CNY Bonds issued by JZBD at the same time. A full list of affirmed issuance rating is included in this report.

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

Rating Rationale

Government’s Ownership and Supervision: State-owned Assets Service Center of Jiaozhou (“Jiaozhou SASC”) holds 100% shares of JZBD through Qingdao Shanghe Holding Development Group Co., Ltd. (“Shanghe Holding”), an LIDC responsible for the development of China-SCO Local Economic and Trade Cooperation Demonstration Area (“SCODA”). JZBD’s ultimate controller is the Management Committee of SCODA (“SCODA MC”), a branch of the Qingdao Municipal Government, carrying out day-to-day supervision over the company.

The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: JZBD is mainly responsible for the infrastructure construction and primary land development in the core area of SCODA, which is located in Jiaozhou. The company’s development plan has been aligned with the local government’s economic and social policies, as the Jiaozhou government is focusing on the development of SCODA. It is an important initiate intending to build a pilot area for innovation of two-way investment and trade systems among the relevant localities across the SCO states, an agglomeration area for business entrepreneurship and development, and a pioneering area for local economic and trade cooperation along the “Belt and Road”.

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 April 2024

Key Figures of Jiaozhou and JZBD (RMB billion)

Jiaozhou	2022	2023
GDP	154.1	163.8
GDP growth rate (%)	5.0	6.8
Budgetary revenue	11.3	11.6
Government fund	6.6	3.0
Transfer payment	3.9	3.4
Budgetary expenditure	14.0	13.4
JZBD	2022	2023.9
Asset	84.0	93.8
Equity	40.9	41.0
Revenue	2.8	1.9

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

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Applicable Criteria

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

Ongoing Government Support: JZBD received ongoing operational subsidies from the local government, amounting to RMB447 million and RMB335 million in 2022 and the first nine months of 2023, respectively. The local government also injected a series of assets including equity of other LIDCS in Jiaozhou and state-owned properties into JZBD over the same period. We expect the support from the local government to remain intact given JZBD's strategic importance.

Economy and Fiscal Condition of Jiaozhou: Jiaozhou, a county-level city under the jurisdiction of Qingdao City, Shandong Province, is an important processing and manufacturing base in the Jiaodong Peninsula with a strong industrial foundation. Jiaozhou administers one state-level economic and technological development zone, the Jiaozhou Economic and Technological Development Zone (now a part of SCODA). Jiaozhou's GDP amount reached RMB163.8 billion in 2023, representing a year-over-year growth rate of 6.8% after Covid's disruption, up from 5.0% in 2022. Both the GDP amount and GDP growth rate of Jiaozhou were ranked second among 10 jurisdictions in Qingdao in 2023.

The Jiaozhou government's budgetary revenue increased slightly to RMB11.6 billion in 2023 from RMB11.3 billion in 2022, and its budgetary expenditure budget deficit narrowed to 15.1% from 23.5%. However, the government fund income, mainly generated by land sales, slumped to RMB3.0 billion in 2023 from RMB6.6 billion in 2022, as the property market remained weak. The total outstanding debt of the Jiaozhou government increased rapidly to RMB36.4 billion at end-2023 from RMB30.7 billion at end-2022, as it issued a large amount of special debts to support local project development. Its government debt ratio (measured by total government debt/aggregate revenue) was lifted to 201.2% from 140.7% over the same period.

JZBD's Financial and Liquidity Position: JZBD's total assets grew considerably to RMB93,766 million at the end of September 2023 from RMB84,019 million at end-2022. The increase was mainly attributed to the company's active involvement in infrastructure construction and land development projects in Jiaozhou as well as the local government's injection of assets, such as equities of other SOEs and LIDCs. The total debt of the company increased moderately to RMB45,989 million from RMB39,829 million over the same period. The reliance on debt financing of JZBD had been slightly heavier, as its leverage, measured as total debt/the sum of debt and equity was lifted to 52.8% from 49.4%.

JZBD's short-term debt servicing pressure was high. At end-September 2023, the company had cash assets of RMB3,378 million (including restricted cash of RMB1,584 million) compared with its debt due within one year of RMB17,788 million. However, it still has access to various financing channels, including bank loans, bond issuance and business operations to support its debt repayments and business operations. At end-September 2023, JZBD had credit facilities amounting to RMB55.8 billion, of which RMB24.1 billion were unused.

Rating Sensitivities

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

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



Company Profile

JZBD was established in 2007. In July 2022, Jiaozhou SASC transferred 100% equity of JZBD and three other companies to Shanghe Holding. JZBD's ultimate controller is SCODA MC, who supervises Shanghe Holding daily operation. SCODA MC is also responsible for reviewing the company's organizational structure, strategic positioning, performance and salary assessment mechanism, etc.

JZBD is an important LIDC responsible for infrastructure construction and primary land development within the core area of SCODA in Jiaozhou. In addition, the company has diversified its business into trading, leasing, property development, etc. JZBD also provides cleaning services, conference services, staff canteen services and other government-paid services for SCODA MC and other government units.

Full List of Issuance Rating

A full list of affirmed Issuance rating is included below. Any rating action on JZBD's rating would result in a similar rating action on the bonds:

- CNY800 million 5.5% senior unsecured Bonds due 2026 affirmed at 'BBB+'

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