

Qingdao Military-Civilian Integration Development Group Co., Ltd. Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer Credit Rating of Qingdao Military-Civilian Integration Development Group Co., Ltd. (“QMIDG” or “the company”); Issuer Rating Outlook is Stable

Summary

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 QMIDG if needed, in light of its indirect full ownership of QMIDG, QMIDG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and innovative industries integration in West Coast New Area, Qingdao City (“West Coast New Area”), and the linkage between the West Coast New Area government and QMIDG, 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 West Coast New Area government may face significant negative impact on its reputation and financing activities if QMIDG encounters any operational and financial difficulties.

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

Rating Rationale

West Coast New Area Government’s Ownership and Supervision: The West Coast New Area government indirectly holds 100% ownership of QMIDG through the Qingdao West Coast New Area State-owned Assets Administration (“West Coast New Area SAA”), via Qingdao Economic and Technological Development Zone Investment Holding Group Co., Ltd. (“QETDZ”). The West Coast New Area SAA is the actual controller of the company. The West Coast New Area 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 West Coast New Area 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 West Coast New Area and Strategic Alignment: QMIDG, as the main implementation entity for infrastructure construction and innovative industries integration in West Coast New Area, is primarily responsible for the infrastructure construction projects in Qingdao West Coast New Area, especially the core area of Guzhenkou (“Guzhenkou”) and Qingdao Economic and Technological Development Zone (“Qingdao ETDZ”) among its ten functional areas, as well as the construction of industrial parks related to innovation integration and equity investment in related projects to promote the implementation of innovation integration strategy of the region, with strong franchised advantages. QMIDG plays an important role in promoting the economic development and innovation integration of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: QMIDG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations.

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 April 2024

Key Figures of West Coast New Area (RMB billion)

West Coast New Area	2022	2023
GDP	469.2	500.3
GDP growth rate (%)	4.8	6.0
Budgetary revenue	22.4	23.1
Government fund	19.5	12.6
Transfer payment	7.5	6.9
Budgetary expenditure	24.2	24.4
QMIDG	2022	2023.9
Asset	84.9	96.7
Equity	27.4	30.3
Revenue	19.8	15.0

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

Analysts

Karis Fan, CESGA
(852) 3462 9579

karis.fan@lhratingsglobal.com

Joyce Huang, CFA
(852) 3462 9586

joyce.huang@lhratingsglobal.com

Applicable Criteria

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

Between 2020 and the first nine months of 2023, QMIDG received financial subsidies of totally about RMB239.6 million from the local government. Meanwhile, the West Coast New Area government continued to inject cash, project-specific funds, financial fund and other assets of totally about RMB13.4 billion into QMIDG to expand its asset size. We expect QMIDG to receive ongoing support from the local government in the coming years considering its strategic importance in West Coast New Area.

Economy and Fiscal Condition of West Coast New Area: West Coast New Area's economic growth accelerated to 6.0% in 2023 from 4.8% in 2022. The GDP amount reached RMB500.3 billion in 2023, which was ranked 1st among all districts and counties under the administration of Qingdao. West Coast New Area's economic growth was almost entirely fueled by the secondary and tertiary industries in the past few years, which accounted for 34.0% and 64.1% in 2023, respectively.

The West Coast New Area government's aggregate fiscal revenues were mainly derived from budgetary revenue and government fund income. Budgetary revenue increased by 3.7% year-over-year to RMB23.1 billion in 2023, with the tax revenue accounting for 77.9% of its budgetary revenue. The fiscal self-sufficiency rate of the West Coast New Area government was moderate, with its budget deficit narrowing from 8.0% in 2022 to 5.5% in 2023. Moreover, the government fund income further declined to RMB12.6 billion in 2023 from RMB19.5 billion in 2022, owing to weak property market. Given 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, had elevated from 107.8% at end-2022 to 143.1% at end-2023.

QMIDG's Financial and Liquidity Position: QMIDG's total assets increased rapidly to RMB96,730 million at the end of September 2023 from RMB84,867 million at end-2022. The rise in the size of QMIDG's assets was mainly attributed to the company's active involvement in project construction within the region. The total debt of the company increased to RMB53,810 million at the end of September 2023, compared with RMB44,909 million at end-2022, of which the short-term and long-term debt accounted for 39.8% and 60.2%, respectively, at end-September 2023. The reliance on external financing of QMIDG was heavier at the end of September 2023 compared to that at end-2022, as QMIDG's debt to capitalization ratio increased to 64.0% from 62.1%, and long-term debt to capitalization ratio rose to 51.7% from 50.1%, respectively.

QMIDG's liquidity was moderately weak. At end-September 2023, QMIDG had unrestricted cash balance of RMB6.6 billion, compared with its debt to be due within one year of RMB21.4 billion. It had unused credit facilities of RMB19.3 billion. In addition, QMIDG has access to various channels of financing, including bank loans, onshore and offshore bonds issuance and non-traditional financing channels, to support its debt repayments and business operations. At end-September 2023, the company had available onshore and offshore bond issuance quotas of about RMB5.2 billion.

Rating Sensitivities

We would consider downgrading QMIDG'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 QMIDG, or (3) there is a downgrade in our internal credit assessment on the West Coast New Area government.

We would consider upgrading QMIDG'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.

Company Profile

QMIDG was established in April 2014 with an initial registered capital of RMB3 billion, funded by Qingdao Huangdao Development (Group) Co., Ltd. (holding 90% of the shares) and Qingdao Lingshanwan Development and Construction Co., Ltd. (holding 10% of the shares).

As of end-September 2023, the controlling shareholder of QMIDG was QETDZ and the actual controller was the West Coast New Area SAA. QETDZ's major shareholder was Qingdao West Coast New Area Integration Holdings Group Co., Ltd. ("QWIH") (holding 51% of the shares, while the remaining 49% is held by the West Coast New Area SAA), and QETDZ's actual controller was also the West Coast New Area SAA. The ultimate controller of QMIDG was the West Coast New Area government. QMIDG's registered capital and paid-in capital were both RMB2.4 billion as of end-September 2023.

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.