

# Shandong Xintai Construction Group Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	9 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Xintai Construction Group Co., Ltd. (“SXCG” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Xintai City, Tai’an City (“Xintai government”) would provide very strong support to SXCG if needed, in light of its full ownership of SXCG, SXCG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Xintai City, Tai’an City (“Xintai”), and the linkage between the Xintai government and SXCG, 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 Xintai government may face significant negative impact on its reputation and financing activities if SXCG encounters any operational and financial difficulties.

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

### Rating Rationale

**Xintai Government’s Ownership and Supervision:** The Xintai government holds the full ownership of SXCG through the State-owned Asset Operation Center of Xintai City’s (“Xintai SAOC”) fully-owned subsidiary, Xintai City Urban Construction Development Group Co. Ltd. (“XCUCD”). The Xintai government is the actual controller of the company. It 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 Xintai government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Xintai and Strategic Alignment:** SXCG, as the key LIDC in Xintai, is primarily responsible for the investment, development and operation of infrastructure projects and resident life projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, SXCG is mainly engaged in urbanization construction, road and pipeline construction, healthcare and education, tourism and other infrastructure related projects with strong regional advantages. In addition, as the sole general construction contractor in Xintai, the company assumes a vital position in various initiatives, including urban renewal, new rural construction and real estate development projects. SXCG plays an important role in promoting the economic and social development of Xintai. Its business operation and development have been aligned with the government’s development plans.

**Ongoing Government Support:** SXCG received operational and financial support from the Xintai government. The Xintai government continued to inject capital, project-related assets, right-of-use assets, equities of other companies and other kinds of assets into SXCG to expand its asset size and diversify its business. Besides, the Xintai government will repurchase some infrastructure projects and provide policy supports to SXCG to ensure its

### Key Figures of Xintai and SXCG

(RMB billion)	2021	2022
<b>Xintai</b>		
GDP	63.0	64.3
GDP growth rate (%)	4.4	6.6
Budgetary revenue	3.5	3.6
Government fund	2.9	1.9
Transfer payment	2.9	2.6
Budgetary expenditure	6.5	7.2
<b>SXCG</b>	<b>2022</b>	<b>2023.9</b>
Assets	10.9	11.5
Equity	6.0	6.1
Revenue	1.5	0.9

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

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### Applicable Criteria

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

business operation. Given that it is the key entity for infrastructure construction and state-owned assets operation in Xintai, SXCG has an advantage in acquiring related resources and major projects. We believe SXCG is likely going to receive government support to support its daily business operation.

**SXCG's Financial Matrix and Liquidity Position:** SXCG's total assets showed a continuous growth trend in the past few years and reached RMB11.5 billion at end-September 2023, as the government injected a large quantity of capital and transferred equities of other enterprises into the company in the past few years. The current assets of SXCG accounted for 47.3% of the total assets at end-September 2023, and the overall asset liquidity was moderately weak due to large amount of inventories and receivables. SXCG's financial leverage (total liabilities to total assets) increased to 47.3% and its adjusted debt increased to RMB471.0 million at end-September 2023 from RMB371.3 billion at end-2022. SXCG's liquidity was tight. At end-September 2023, SXCG had a cash balance and unused credit facilities of RMB205.9 million and RMB10.0 million, respectively, compared with its debt due within one year of RMB451.5 million. Having said that, SXCG has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. SXCG also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Strength of Xintai:** Xintai is a county-level city directly under the jurisdiction of Shandong Province and administered by Tai'an City ("Tai'an"), and is located in the eastern part of Tai'an. Xintai's economy kept moderate growth in the past three years, with its GDP growth rate recording at 5.3%, 4.4% and 6.6% in 2021, 2022 and 2023, respectively. Xintai's GDP reached RMB64.3 billion in 2023, and ranked the 2<sup>nd</sup> among all districts and county-level cities under the administration of Tai'an.

Xintai's governmental fiscal revenues primarily stem from budgetary income and government fund income. In 2023, the budgetary revenue of the Xintai government increased to RMB3.6 billion, up from RMB3.5 billion in 2022. The fiscal self-sufficiency of the Xintai government was relatively weak, with the budget deficit widened to 103.7% in 2023 from 84.8% in 2022. The government fund income, most of which was derived from land use rights revenue, declined to RMB1.9 billion in 2023 from RMB2.9 billion in 2022, owing to weak property market. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Xintai government surged to 194.9% at end-2023 from 110.8% at end-2021, mainly due to the increase in special debts.

## Rating Sensitivities

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

We would consider upgrading SXCG's rating if there is an upgrade in our internal credit assessment on the Xintai government.

## Operating Environment

### Economic Condition of Xintai

Xintai is a county-level city directly under the jurisdiction of Shandong Province and administered by Tai'an, and is located in the eastern part of Tai'an. Xintai is a time-honored

city with more than 2,600 years of history and abundant intangible cultural heritages. Xintai has jurisdiction over 20 streets, with a total area of 1,946 square kilometers. Besides, it owns one provincial economic development zone and one provincial tourism resort. At end-2022, Xintai has a residential population of 1.3 million with an urbanization rate of 61.1%.

Xintai's economy kept moderate growth in the past three years, with its GDP growth rate recording at 5.3%, 4.4% and 6.6% in 2021, 2022 and 2023, respectively. The GDP amount of Xintai reached RMB64.3 billion in 2023, ranking 2<sup>nd</sup> out of all districts and counties under Tai'an's jurisdiction. The economy of Xintai was mainly driven by the secondary and tertiary industries, which accounted for 43.2% and 46.0% of the GDP in 2023, respectively.

<b>Xintai's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
GDP	57.4	63.0	64.3
-Primary industry (%)	10.9	10.8	10.8
-Secondary industry (%)	40.0	42.5	43.2
-Tertiary industry (%)	49.1	46.7	46.0
GDP growth rate (%)	5.3	4.4	6.6
Fixed asset investment growth rate (%)	-44.3	20.9	8.4
Population (million)	1.3	1.3	1.3

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Xintai

The budgetary revenue of Xintai government slightly increased to RMB3.6 billion in 2023 from RMB3.5 billion in 2022, with the contribution of tax revenue elevated to 70.7% from 60.9% over the same period. The fiscal self-sufficiency of the Xintai government was relatively weak, with the budget deficit widened to 103.7% in 2023 from 84.8% in 2022. The government fund income, most of which was derived from land use rights revenue, declined to RMB1.9 billion in 2023 from RMB2.9 billion in 2022, owing to weak property market.

The outstanding debt of the Xintai government grew rapidly in the past three years, increasing from RMB10.7 billion at end-2021 to RMB15.7 billion at end-2023, including RMB4.1 billion of general obligations and RMB11.6 billion of special debts. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Xintai government surged to 194.9% at end-2023 from 110.8% at end-2021, mainly due to the increase in special debts.

<b>Xintai's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Budgetary revenue	3.8	3.5	3.6
Budgetary revenue growth rate (%)	-8.3	-5.5	0.2
Tax revenue	2.6	2.2	2.5
Tax revenue (% of budgetary revenue)	70.6	60.9	70.7
Government fund income	3.5	2.9	1.9
Transfer payment	2.4	2.9	2.6
<b>Aggregate revenue</b>	<b>9.7</b>	<b>9.4</b>	<b>8.1</b>
Budgetary expenditure	7.6	6.5	7.2
Budget balance <sup>1</sup> (%)	-102.9	-84.8	-103.7

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

SXCG was established in May 2008 by some individual shareholders with an initial registered capital of RMB25.7 million. In February 2017, the company changed to a wholly state-owned enterprise, and XCUCD became its new shareholder. After an array of capital injections and equity transfers, the company's registered capital and paid-in capital increased to RMB368 million and RMB33 million, respectively, at end-September 2023. XCUCD was the sole shareholder and Xintai SAOC was the ultimate controller.

## Strategic Importance and Government Linkage

### Strategic Importance of SXCG to Xintai

SXCG, as the key LIDC in Xintai, is primarily responsible for the investment, development and operation of infrastructure projects and resident life projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, SXCG is mainly engaged in urbanization construction, road and pipeline construction, healthcare and education, tourism and other infrastructure related projects with strong regional advantages. In addition, as the sole general construction contractor in Xintai, the company also plays an important role in projects related to urban renewal, new rural construction and real estate development in the region. SXCG plays an important role in promoting the economic and social development of Xintai. Its business operation and development have been aligned with the government's development plans.

### Strong Linkage with the Local Government

SXCG's linkage with the local government is strong as the Xintai government holds the full ownership of SXCG through Xintai SAOC's fully-owned subsidiary, XCUCD. The Xintai 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 Xintai government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

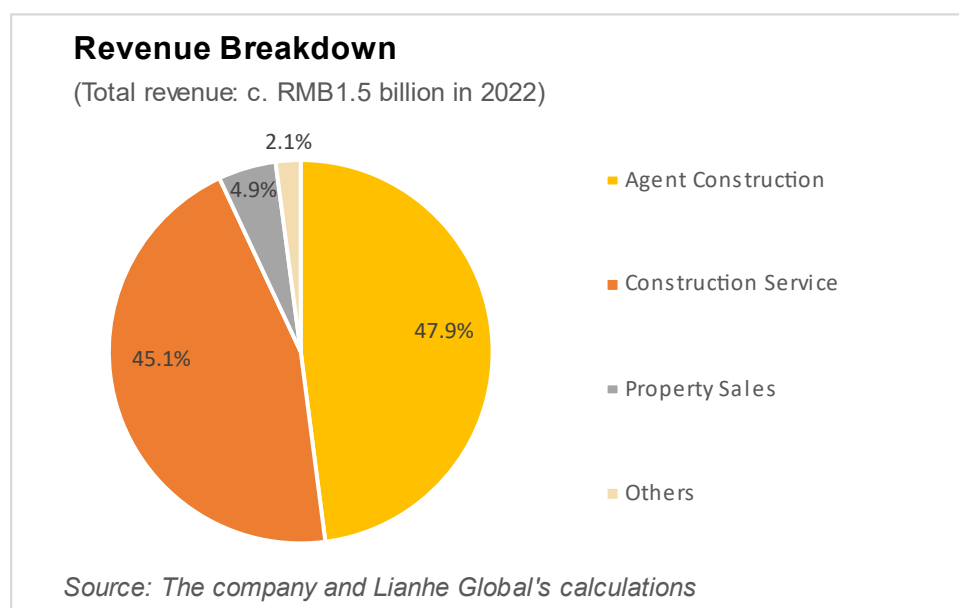
### Government Support

SXCG received operational and financial support from the Xintai government. The Xintai government continued to inject capital, project-related assets, right-of-use assets, equities of other companies and other kinds of assets into SXCG to expand its asset size and diversify its business. Besides, the Xintai government will repurchase some infrastructure projects and provide policy supports to SXCG to ensure its business operation. Given that it is the key entity for infrastructure construction and state-owned assets operation in Xintai, SXCG has an advantage in acquiring related resources and major projects. We believe SXCG is likely going to receive government support to support its daily business operation.

## Business Profile

### The Important Entity Responsible for Infrastructure Construction in Xintai

SXCG is an important LIDC responsible for the infrastructure construction and state-owned assets operation within Xintai. The primary sources of operating income of the company are agent construction, construction service, property sales and other businesses. The total operating revenue of SXCG was RMB736.5 million, RMB1,285.1 million and RMB1,465.4 million in 2020, 2021 and 2022, respectively. The gross profit margin stayed around 14% over the same period.



### Agent Construction

The company is mainly responsible for the construction of hospitals, schools, industry bases, roads and pipeline networks, etc. within Xintai, with a strong regional advantage. The projects in this segment are mainly conducted in the agent construction model, the company signs the agent construction agreements with local government agencies and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a percentage of management fees with the entrusting parties on a regular basis or upon the completion of the entrusted projects. The income derived from this segment was RMB36.0 million, RMB650.2 million and RMB700.7 million in 2020, 2021 and 2022, respectively. The gross profit margin of this segment was 1.3%, 9.2% and 13.6% in 2020, 2021 and 2022, respectively.

### Construction Service

The construction service is mainly handled by its subsidiary Xintai City Construction and Installation Co., Ltd. ("XCCI"). XCCI owns qualifications for property construction, building renovation and decoration, firefighting facilities, hydropower projects and many other professional qualifications. XCCI normally tenders whole projects or subcontracts some professional parts of projects. The construction cost and revenue will be confirmed based on the actual schedule and the settlement. The income derived from this segment was RMB525.2 million, RMB555.2 million, and RMB633.3 million in 2020, 2021 and 2022,

respectively. The gross profit margin of this segment ranged between 10.1% and 19.7% in 2020-2022, respectively.

### Property Sales

The property sales business is operated by its subsidiary Xintai City Real Estate Development Co., Ltd. ("XCERD"). XCERD constructs buildings through self-funding and sells living houses and facilities to earn income. The income derived from this segment was RMB132.3 million, RMB53.9 million, and RMB97.0 million in 2020, 2021 and 2022, respectively. The gross profit margin of this segment varied between 26.4% and 36.7% in 2020-2022, respectively.

### Other Businesses

Except for the businesses mentioned above, the company also engages in commodity sales and other businesses to supplement its operating revenue, including building materials sales, machinery sales and agricultural produce sales, while the revenue only accounts for a small part of the company's total revenue.

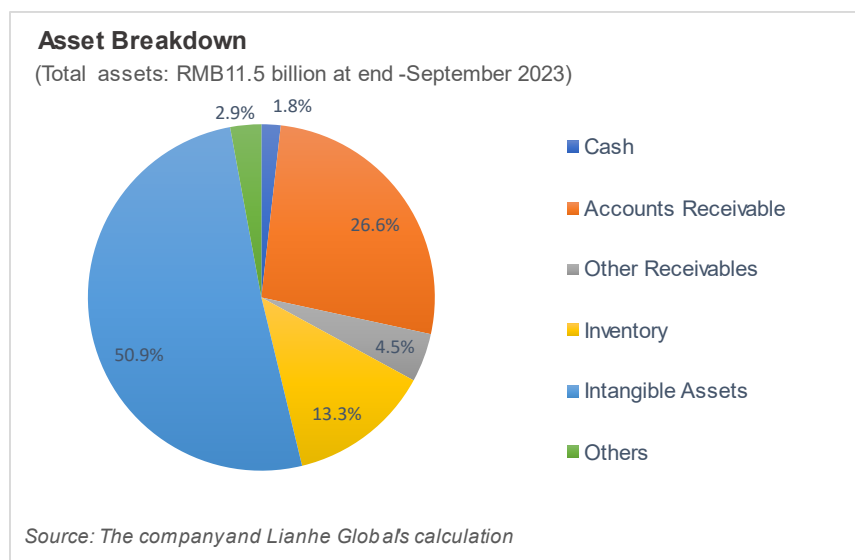
## Financial Profile

### Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September-2023
Total Asset	3,128	9,891	10,936	11,516
Equity	24	5,935	6,012	6,064
Debt	271	443	371	471
Debt / (Debt + Equity) (%)	91.8	7.0	5.8	7.2
LT Debt	28	17	20	20
LT Debt / (LT Debt + Equity) (%)	53.9	0.3	0.3	0.3

*Source: Company information and Lianhe Global's calculations*

SXCG's total assets surged to RMB11,516 million at end-September 2023 from RMB3,128 million at end-2020, as the government injected a large quantity of capital and transferred equities of other enterprises into the company in the past few years.



The total debt of the company mildly increased to RMB471 million at end-September 2023, compared with that at end-2020 (RMB271 million). Both the long-term and short-term debt rose in the past few years, and the reliance on debt financing of SXCG was much alleviated over the same period, the total debt ratio measured as total debt/the sum of debt and equity and the long-term debt ratio measured as long-term debt/the sum of long-term debt and equity fell sharply to 7.2% and 0.3% at end-September 2023 from 91.8% and 53.9% at end-2020, respectively, mainly due to the shareholders' equity increased considerably.

SXCG's asset quality was relatively weak. The company's current assets totaled RMB5,446 million at end-September 2023, accounting for 47.3% of the total assets. The current assets of SXCG are mainly constituted of cash assets, accounts receivables, other receivables and inventories. The non-current assets increased to RMB6,069 million at end-September 2023, of which 96.5% are intangible assets. The increase in intangible assets was mainly due to the government transferring the mineral rights to the company in 2021.

### Debt Servicing Capability

SXCG's liquidity was tight. At end-September 2023, SXCG had a cash balance and unused credit facilities of RMB205.9 million and RMB10.0 million, respectively, compared with its debt due within one year of RMB451.5 million. Having said that, SXCG has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. SXCG also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.



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