

# Qingdao City Construction Investment (Group) Limited

## Surveillance Report

### Summary

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

### Key Figures of Qingdao and QCCI

(RMB billion)	2022	2023
Qingdao		
GDP	1,492.1	1,576.0
GDP growth rate (%)	3.9	5.9
Budgetary revenue	127.3	133.8
Budgetary expenditure	169.6	171.9
QCCI		
	2022	3Q2023
Assets	416.1	429.1
Equity	148.4	147.8
Revenue	40.3	33.1

Source: Public information, QCCI and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Qingdao City Construction Investment (Group) Limited. (“QCCI” or “the company”) to ‘A+’ from ‘A’; The Outlook is Stable.

### Summary

The Issuer Credit Rating upgrade reflects the company’s increasing strategic importance in Qingdao and linkage with the Qingdao Municipal Government (“Qingdao government”), as the company is undertaking more significant urban renewal and urban construction projects under the guidance of the Qingdao government, and received strategic state assets in 2023. It is aligned with the development plans of the Qingdao government and strengthened QCCI’s role as Qingdao’s important urban comprehensive development and operating entity.

We believe this continues to present a high possibility that the Qingdao government would provide strong support to QCCI if needed, in light of the Qingdao government’s full ownership of QCCI, the high strategic importance of QCCI to Qingdao and the increasingly strong linkage between the Qingdao government and QCCI, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions, and ongoing government support. In addition, the Qingdao government may face significant negative impact on its reputation and financing activities should QCCI encounter any operational or financial difficulties.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD bonds and senior unsecured CNY bonds issued by QCCI’s wholly-owned subsidiary Hongkong International (Qingdao) Company Limited (“HKIQD”) to ‘A+’ from ‘A’ at the same time. QCCI shows its strong willingness to support HKIQD in meeting its debt obligations by offering a keepwell deed, a deed of equity interest purchase undertaking and an irrevocable standby facility agreement. A full list of affirmed issuance rating is included in this report.

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

### Rating Rationale

**Qingdao Government’s Full Ownership and Supervision:** The Qingdao government has 100% ownership of QCCI via the State-owned Assets Supervision and Administration Commission of Qingdao (“Qingdao SASAC”). The Qingdao government and Qingdao SASAC has strong control and supervision over QCCI, including appointment and supervision of the senior management and the supervisory committee, strategic alignment and major investment and financing plan decisions. In addition, the Qingdao government has formulated a performance appraisal policy for QCCI, and regularly appoints auditors to review the its operating performance and financial position.

**High Strategic Importance and Strategic Alignment:** QCCI is still the largest (in terms of asset size and operating revenue) and most important state-owned asset management and operation, as well as infrastructure construction and investment platform in Qingdao. QCCI plays an important role in urban renewal and urban development in Qingdao, particularly in some significant municipal projects and transportation infrastructure projects. QCCI’s

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### Applicable Criteria

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

strategic importance is strengthened in 2023 as it took Guanlu Reservoir project and Liuting Airport area renovation under the guidance of the Qingdao government. QCCI is also a state-owned assets operating platform that guides and promotes the local industrial and economic development. In addition, with its development of new energy and water business, QCCI will be positioned as the leading state-owned company in the field of new energy power generation and water business in Qingdao. QCCI's strategic planning and development have been aligned with the national and local government's development plan.

**Ongoing Government Support:** QCCI enjoys a prominent position among state-owned entities in Qingdao and continues to receive strong support from the Qingdao government and Shandong Provincial Government. QCCI has persistently received subsidies from the government mainly for supporting projects related to public infrastructure construction, business operation and social welfare services. QCCI continually received a total amount of RMB4.9 billion of government subsidies in 2022 and the first nine months of 2023, including operating subsidies, tax benefits and refunds. QCCI also received asset injection ( of RMB690.3 million. Given QCCI's role and strategic importance, we believe that it is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

**QCCI's Financial and Liquidity Position:** QCCI's total assets increased to RMB429.1 billion at end-September 2023 from RMB416.1 billion at end-2022, and the expansion of non-current assets which was mainly attributed to the company's active involvement in infrastructure construction and the expansion of non-current assets.

The total debt of the company increased to RMB230.3 billion at the end of September 2023, from RMB220.1 billion at end-2022, of which the short-term and long-term debt accounted for 26.0% and 74.0%, respectively, at end-September 2023. As a result, QCCI's debt to capitalization ratio slightly increased to 60.9% (end-September 2023) from 59.7% (end-2022), and long-term debt to capitalization ratio rose to 53.5% from 50.8%.

Liquidity was sufficient to support QCCI's debt repayments. At end-September 2023, QCCI had unrestricted cash balance and unused credit facilities of RMB11.0 billion and RMB120.8 billion, respectively, compared with its debt to be due within one year of RMB60.0 billion. In addition, QCCI has access to various channels of financing, including bank loans and international bank loans, non-bank loans, onshore and offshore bonds, non-traditional financing, to support its debt repayments and business operations. At end-September 2023, the company had an available unused onshore bond quota of RMB16.6 billion.

**Economy and Fiscal Condition of Qingdao:** Qingdao realized a GDP amount of RMB1,576.0 billion in 2023, with its economic growth rate elevated to 5.9% in 2023 from 3.9% in 2022. The GDP scale of Qingdao was ranked 1<sup>st</sup> among all jurisdictions of Shandong in 2023. The aggregate fiscal revenue of the Qingdao government was mainly derived from budgetary revenue and government fund income. The budgetary revenue increased mildly to RMB133.8 billion in 2023 from RMB127.3 billion in 2022, and the proportion of tax revenue over the budgetary revenue rose to 75.2% from 69.2% over the same period. The fiscal self-sufficiency of the Qingdao government slightly improved in 2023, with its budget deficit narrowing to 28.5% from 33.2% in 2022. The government fund income plunged to RMB50.3 billion in 2023 from RMB89.6 billion in 2022, which was mainly due to the downturn of the real estate industry. The government debt ratio (measured by total government debt/aggregate revenue) was also lifted to 163.8% from 120.7% over the same period, mainly due to the large increase in special debt.

### Rating Sensitivities

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

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

Any rating action on QCCI's rating would result in a similar rating action on the USD and CNY bonds.

### Company Profile

QCCI was established in May 2008 under the approval of the Qingdao government. The Qingdao SASAC is the only shareholder with 100% ownership of QCCI, and the Qingdao government is the ultimate controller.

QCCI is the largest local investment and development company in Qingdao that conducts various business such as urban construction and development, new energy business, industrial business, trading business, transportation business, financial business and other state-owned assets operation in the region. QCCI has played an important role for the urban and economic development of Qingdao, and has received ongoing support from the Qingdao government including but not limited to assets injection, financial subsidies, tax benefits and refunds.

### Full List of Issuance Ratings

A full list of issuance ratings is included below. Any rating action on QCCI's rating would result in a similar rating action on the USD and CNY bonds:

- USD300 million 4.0% senior unsecured bonds due 2024 upgraded to 'A+' from 'A'
- USD750 million 4.8% senior unsecured bonds due 2025 upgraded to 'A+' from 'A'
- CNY700 million 4.2% senior unsecured bonds due 2026 upgraded to 'A+' from 'A'

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