

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Gaochuang Holding Group Co., Ltd.

HONG KONG, 24 May 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Shandong Gaochuang Holding Group Co., Ltd. (“SDGC” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the management committee of Weifang Hi-Tech Industrial Development Zone (“Management Committee”) (the de facto local government of Weifang Hi-Tech Industrial Development Zone (“Weifang HIDZ”)) would provide strong support to SDGC if needed, in light of its indirectly majority ownership of SDGC, SDGC’s strategic importance as a key local investment and development company (“LIDC”) responsible for project development and city operation in Weifang HIDZ, and the linkage between the local government and SDGC. In addition, the local government may face significant negative impact on its reputation and financing activities if SDGC encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: Fiscal and Finance Bureau of Weifang HIDZ indirectly holds 90% shares of SDGC and is the company’s ultimate controller. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Weifang HIDZ and Strategic Alignment: SDGC is a key LIDC responsible for shantytown renovation, industrial park development and heat supply in Weifang HIDZ. The company’s business operation plays a significant role in promoting local industrial development and city’s operation in Weifang HIDZ. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: The local government provides ongoing support to SDGC and its subsidiaries, including cash capital injections and allocations of shares of other local SOEs and other assets between 2020 and 2023. The company also received operational subsidizes over the same period. We expect the support from the local government to remain intact given SDGC’s strategic importance in Weifang HIDZ.

Economy and Fiscal Condition of Weifang HIDZ: Located in East of Weifang City, Weifang HIDZ, was established in 1991 and upgraded into a national-level development zone in 1992

with the authorization of the State Council. It focused on the development of four leading industries, namely power equipment, IT, medical and health care, new material. Weifang HIDZ realized GDP of RMB64.6 billion in 2022. Yet its GDP growth rate decelerated in the past few years.

Weifang HIDZ's budgetary revenue decreased to RMB6.3 billion in 2022 from RMB7.1 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. Its government fund income also slumped to RMB3.3 billion from RMB6.7 billion, owing to the weak property market. However, the outstanding debt of the Weifang HIDZ continued to grow in the past few years and reached RMB5.4 billion at end-2022, mainly due to the considerable new issuance of special debts to support project development. The government debt ratio, as measured by the total government debt/aggregate revenue, was lifted to 49.8% in 2022 from 25.4% in 2021.

SDGC's Financial and Liquidity Position: SDGC's total asset increased steadily between 2020 and 2023, which was mainly due to the company's active participation in project development in Weifang HIDZ. The company mainly relied on local government's capital injections and equity allocation to fund its asset expansion. Therefore, SDGC's financial leverage, as measured by debt/capitalization was on a downward trend in the past three years, decreasing to 53.2% at end-2023 from 62.3% at end-2020.

However, SDGC's asset liquidity was relatively weak, as the company had accumulated sizable inventories (mainly construction costs) and investment properties (mainly industrial parks) from its project development activities, respectively representing 57.5% and 12.4% of SDGC's total asset end-2023. These assets usually take a long time to monetize due to the protracted construction and payback period.

SDGC's short-term debt servicing pressure was moderate high. At end-2023, the company had cash balance of RMB2.5 billion, while it had debt due within one year of RMB7.5 billion. Yet we expect the company to rollover most of its short-term bank borrowings (end-2023: RMB1.4 billion). In addition, the company has access to various financing channels, including bank borrowings and bond issuances to satisfy its obligations. At end-2023, SDGC had unused facility lines of RMB8.2 billion.

Rating Sensitivities

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

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