

Qingdao China Prosperity State-owned Capital Investment Operation Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	3 June 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Qingdao China Prosperity State-owned Capital Investment Operation Group Co., Ltd. (“QCP” 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 deepening and strengthening the involvement in its existing coverage in state-owned capital operation and industrial development, as well as expanding the range of its investment. It is aligned with the development plans of the Qingdao government and strengthened QCP’s role as the major entity responsible for state-owned capital operation and industrial development in Qingdao.

We believe this continues to present a high possibility that the Qingdao government would provide strong support to QCP if needed, in light of its full ownership of QCP, QCP’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for state-owned capital investment and operation and industrial development in Qingdao, and the linkage between the Qingdao government and QCP, 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 QCP 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 issued by QCP’s wholly-owned subsidiary Huatong International Investment Holdings Co., Limited (“Huatong International”) to ‘A+’ from ‘A’ at the same time. QCP shows its strong willingness to support Huatong International in meeting its debt obligations by offering a keepwell deed. A full list of upgraded issuance rating is included in this report.

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

Rating Rationale

Government’s Ownership and Supervision: The Qingdao government holds 100% shares of QCP via the State-owned Assets Supervision and Administration Commission of Qingdao (“Qingdao SASAC”). The Qingdao government has strong control over the company, including appointment and supervision of the senior management, strategic alignment, major investment and financing planning decisions. In addition, the Qingdao government formulates 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: As a key state-owned capital investment and operation and industrial development entity in Qingdao, QCP is positioned as the

Key Figures of Qingdao and QCP

(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
Government fund	89.6	50.3
Transfer payment	35.9	34.9
Budgetary expenditure	169.6	171.9
QCP		
Assets	51.9	50.5
Equity	21.3	22.3
Revenue	6.7	9.5

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

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Applicable Criteria

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

pioneer to promote the reform of state-owned enterprises on behalf of the Qingdao government. QCP is involved in the management and operation in a variety of industries, including textile, machinery and light industries, etc. QCP strengthened its role in state-owned capital operation in 2023. For instance, QCP completed and commenced operation for the underground comprehensive transportation center in Qingdao in December 2023. QCP plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: QCP continues to receive capital and asset injections from the Qingdao government. The injections include but not limited to cash, equity capital, right-of-use assets or other fixed assets. Between 2020 and the first three months of 2024, the company received asset and capital injections of RMB13.4 billion. Over the same period, QCP receives a wide variety of governmental subsidies from the Qingdao government of RMB659.3 million. We believe QCP is likely going to receive government support in the future.

QCP's Financial and Liquidity Position: QCP's total assets decreased slightly to RMB50.9 billion at end-March 2024 from RMB51.9 billion at end-2022. It was mainly due to the decrease in financial assets held for trading, as the company repaid some of its USD debts in order to reduce the scale of offshore debt and lower financing costs. The asset structure remained stable, with long-term equity investments, other receivables, financial assets held for trading, investment properties, fixed assets and cash at bank and on hand, accounting for about 60% of total assets at end-March 2024. The long-term equity investment balance increased further to RMB11.5 billion at end-March 2024, mainly including Hisense Company Limited. QCP's other receivables reached RMB4.9 billion at end-March 2024, which was mainly due from local SOEs and private companies.

QCP's financial leverage (total liabilities to total assets) decreased steadily from 59.1% at end-2022 to 55.6% at end-March 2024. Compared with the figures at end-2022, QCP's total liabilities decreased by 8.5% to RMB28.3 billion at end-March 2024, while its total equities increased by 6.1% to RMB22.6 billion at end-March 2024 with unchanged equity structure. The total debt of the company was reduced from RMB21.1 billion at end-2022 to RMB19.6 billion at end-March 2024, with the proportion of short-term debt lifted from 45.5% to 55.1% over the same period, indicating heightened short-term debt repayment pressure.

The liquidity of QCP was moderate. At end-March 2024, the company had cash balance of RMB3.3 billion (including restricted cash of RMB0.6 billion) and unused credit facilities of RMB24.0 billion, while its debt due within one year was RMB10.8 billion. Besides, the company has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of Qingdao: Qingdao realized a GDP 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 1st 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 purpose debt.

Rating Sensitivities

We would consider downgrading QCP'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) commercial-oriented operations may significantly jeopardize QCP's overall credit profile, or (3) there is a significant reduction of the Qingdao government's ownership of QCP, or (4) there is a downgrade in our internal credit assessment on the Qingdao government.

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

Any rating action on QCP's rating would result in a similar rating action on its USD bonds.

Company Profile

QCP was established in February 2008 under the approval of the Qingdao government. The Qingdao SASAC is the sole shareholder with 100% ownership of QCP. The Qingdao government is the ultimate controller of the company.

In 2020, the Qingdao government approved to transfer its ownership of Hisense Company Limited, which was held by the Qingdao SASAC, to QCP gratuitously. QCP is a key state-owned capital investment and operation and industrial development entity in Qingdao. QCP is positioned as the pioneer to promote the reform of state-owned enterprises on behalf of the Qingdao government. QCP plays an important role in promoting the economic and social development of the region.

Full List of Issuance Ratings

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

- USD280 million 6.8% senior unsecured bonds due 2027 upgraded to 'A+' from 'A'

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