Qingdao Development Zone Investment and Construction Group Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	15 October 2024

Key Figures of West Coast New Area and QDZIC (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
QDZIC	**2023**	**2024.6**
Asset	45.7	48.7
Equity	17.0	18.2
Revenue	11.1	4.6

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

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Applicable Criteria
China Local Investment and Development Companies Criteria (31 July 2024)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB' global scale Long-term Issuer Credit Rating of Qingdao Development Zone Investment and Construction Group Co., Ltd. ("QDZIC" 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 QDZIC if needed, in light of its indirect full ownership of QDZIC, QDZIC's strategic importance as the key local investment and development company ("LIDC") responsible for infrastructure construction and state-owned asset management in the West Coast New Area, Qingdao City ("West Coast New Area"), especially in the Qingdao Economic and Technological Development Zone ("Qingdao EDZ"), and the linkage between the West Coast New Area government and QDZIC, including management appointments, strategic alignment, supervision of major investment and financing plans 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 QDZIC encounters any operational and financial difficulties.

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

Rating Rationale

West Coast New Area Government's Ownership and Supervision: The West Coast New Area government holds 100% ownership of QDZIC through the Qingdao West Coast New Area State-owned Assets Administration ("West Coast New Area SAA") and other LIDCs in the region. 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 supervision over the company, including management appointments, strategic development and investment planning, and major funding decisions. In addition, the West Coast New Area government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to West Coast New Area and Strategic Alignment: QDZIC, as the main implementation entity for infrastructure construction in Qingdao EDZ, plays an important role in promoting the economic development of the region. It undertakes the vast majority of the infrastructure projects in Qingdao EDZ. The company is also responsible for the industrial park operation, urban service operation, regional area development, culture and tourism development within Qingdao EDZ with strong reginal advantages. QDZIC's business operation and development have been aligned with the government's development plans.

Ongoing Government Support: QDZIC continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. Between 2020 and the first six months of 2024, QDZIC received financial subsidies of totally

about RMB158.7 million from the local government. Meanwhile, the company received project assets (such as shantytown redevelopment projects), fiscal funds, government debt-to-loan funds, and capital injections from the West Coast New Area government totaling around RMB6.9 billion. We expect QDZIC 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.

QDZIC's Financial and Liquidity Position: QDZIC's total assets increased to RMB48,650 million at end-June 2024 from RMB36,038 million at end-2022, as the company continuously participates in project construction. QDZIC's asset liquidity was weak, primarily due to the large proportion of inventories, investment properties, representing 54.0% of total assets at end-June 2024. These assets usually take a long time to monetize.

QDZIC's financial leverage (total liabilities to assets) was relatively stable at 61.1%-63.3% in the past few years, and was 62.6% at end-June 2024. QDZIC's total debt rose to RMB24,278 million at end-June 2024 from RMB17,097 million at end-2022. At end-June 2024, the short-term and long-term debt accounted for 34.2% and 65.8% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, climbing from 54.9% at end-2022 to 57.2% at end-June 2024.

QDZIC's liquidity was sufficient. At end-June 2024, QDZIC had unrestricted cash balance of RMB1.7 billion, compared with its debt to be due within one year of RMB8.3 billion. It had unused credit facilities of RMB21.1 billion at end-June 2024. In addition, QDZIC has access to various channels of financing, including bank loans, bonds issuance and non-traditional financing channels, to support its debt repayments and business operations. At end-June 2024, the company had available onshore and offshore bond issuance quotas of about RMB2.6 billion.

Rating Sensitivities

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

We would consider upgrading QDZIC'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

QDZIC was established in May 2017 with an initial registered capital of RMB1.0 billion, funded by Chengfa Investment Group Co., Ltd. ("CIG") and West Coast New Area SAA, which formerly known as Qingdao Huangdao District State-owned Assets Management Office. After an array of capital injection, the registered capital of the company was increased to RMB2.0 billion in November 2017. In March 2020, West Coast New Area SAA transferred its equity shares to Qingdao Military-Civilian Integration Development Group Co., Ltd. ("QMCI").

At end-June 2024, QDZIC's registered and paid-in capital were RMB2.0 billion and RMB1.2 billion, respectively. QDZIC had a shareholding structure in which the QMCI, as the controlling shareholder, held 60% of the company's equity, and the remaining 40% equity was held by CIG. The actual controller of the company is the West Coast New Area SAA.

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