Shandong Hejian State-owned Capital Investment Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	23 October 2024

Key Figures of Heze and SHSCI

(RMB billion)	2022	2023
Heze		
GDP	420.5	446.4
GDP growth rate (%)	4.2	4.8
Budgetary revenue	30.0	31.7
government fund	40.6	35.0
Transfer payment	40.8	42.1
Budgetary expenditure	69.2	73.5
SHSCI	**2023**	**2024.6**
Assets	44.0	44.2
Equity	32.7	32.9
Revenue	8.4	3.8

Source: Statistics Bureau of Heze, Finance Bureau of Heze, SHSCI 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 Shandong Hejian State-owned Capital Investment Co., Ltd. ("SHSCI"); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Heze City ("Heze government") would provide strong support to SHSCI if needed, in light of its full ownership of SHSCI, SHSCI's strategic position as the major LIDC participating in land development, infrastructure construction, resettlement housing construction, and urban renewal in Heze City, Shandong Province ("Heze"), as well as the strong linkage between the Heze government and SHSCI, including control of board of directors, management supervision, strategic alignment and ongoing operational and financial support. In addition, the Heze government may face significant negative impact on its reputation, business and financing activities should SHSCI encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that SHSCI strategic importance would remain intact while the Heze government will continue to ensure SHSCI's stable operation.

Rating Rationale

Strong linkage and Strategic alignment with the Heze government: SHSCI's linkage with the local government is strong as it is majority owned by the Heze government. The Heze government holds a 99.674% stake in SHSCI through the State-owned Assets Supervision and Administration Commission of the Heze government, and it is SHSCI's ultimate shareholder. The rest of the 0.33% share is held by Shandong Caixin Asset Operation Co., Ltd., a LIDC fully owned by Shandong Provincial Finance Department.

Heze government has strong control and supervision over SHSCI, including control of the board of directors and the supervisory committee, the appointment of senior managements, and the supervision over its major operating and financing plans. In addition, the government assigns auditors to audit SHSCI's financial and operational data periodically. SHSCI's strategic planning and development have been aligned with the local government's economic and social policies.

Strategic Importance of SHSCI to Heze: As the second largest LIDC in the region, SHSCI is responsible for infrastructures construction, as well as resettlement housing construction and land development and consolidation to promote the urban upgrading of Heze. The company has newly been entrusted for the urban renewal and transformation project in the eastern area of Changjiang Road, along with the corresponding urban development and the construction of related public facilities. Besides, the company will oversee rural revitalization projects in various districts and counties of Heze.

Ongoing government Support: SHSCI has received support from the local government for its business operation, including capital injection, financial subsidies, allocation of land resources or assets and guidance in its daily management, which we expect to continue. SHSCI received financial subsidies from the local government to maintain its business operation, amounting to RMB56.7 million from 2021 to the first six months of 2024. Heze

government will repurchase some infrastructure projects and resettlement housing projects upon completion. Given the strategic importance of SHSCI in land development and construction of infrastructure related projects in the region, SHSCI and its subsidiaries have advantages to obtain land resources and main projects.

Financial Positions of SHSCI: SHSCI's total assets showed a stable trend in the past two years and reached RMB44.2 billion at end-June 2024. SHSCI depended much on debt financing, and the total debts of the company increased to RMB7.2 billion at end-June 2024 from RMB4.4 billion at end-2021. Having said that, its financial leverage, as measured by total liabilities/total assets, remained relatively low at 25.5% at end-June 2024. The non-current assets accounted for 61.6% of SHSCI's total assets at end-June 2024, and were mainly composed of investment properties, fixed assets, construction in progress and biological assets, indicating a relatively weak asset liquidity.

The liquidity of SHSCI was relatively tight. SHSCI had a cash balance of RMB2.3 billion at end-June 2024, compared with its debt within one year of RMB3.8 billion. Having said that, the majority of the bank loans were liquidity loans, which can be rolled over without credit cut. Besides, SHSCI has financing channels including bank loans and bond issuance to support its debt repayment and business operation. The company had a total bank facility of RMB4.0 billion at end-2023, of which RMB1.5 billion was unused.

Economy and Fiscal Condition of Heze: Heze's GDP growth rate accelerated to 6.8% in 2023 from 4.2% in 2022. Yet Heze's absolute amount of GDP (RMB446.4 billion) was still relatively low, which was ranked 8th in Shandong in 2023 (out of the 16 prefecture-level cities).

The Heze government's budgetary revenue increased to RMB31.7 billion in 2023 from RMB29.0 billion in 2022. However, the fiscal self-sufficiency rate of the Heze government was weak and continued deteriorating, with its budget deficit widening from 125.9% in 2022 to 132.1% in 2023.

The outstanding debt of the Heze government continued to grow as Heze government borrowed heavily in special debts to support its public projects. At end-2023, the Heze government's outstanding debt was c. RMB150.1 billion, and its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was elevated from 123.7% at end-2022 to 136.4% at end-2023.

Rating Sensitivities

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

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

Company Profile

SHSCI was established in 2019 on the basis of the Shandong Hejian Construction Group Co., Ltd. by the Heze SASAC with a registered capital of RMB500 million at the time of establishment. After several rounds of capital injections, SHSCI's registered capital enraged to RMB5.0 billion at end-June 2024.

SHSCI focuses on the infrastructure construction, land development and state-owned asset operation to implement the related instructions of Heze governments, thus realizing the

overall urban upgrading. It also carries out engineering construction, agent construction, real estate sales and other businesses such as construction material sales and construction labor service.

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