

Weihai Changyang Industrial Co., Ltd.

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weihai Changyang Industrial Co., Ltd. (“WHCY” or “the company”)

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	29 August 2025

Summary

The Issuer Credit Rating reflects a high possibility that Wendeng District People’s Government (“Wendeng government”) would provide strong support to WHCY if needed. This mainly considers the Wendeng government’s full ownership of WHCY, WHCY’s strategic position as an important local investment and development company (“LIDC”) responsible for industrial investment and public utility services in Wendeng District (“Wendeng”), and the linkage between the Wendeng government and WHCY, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Wendeng government may face significant negative impact on its reputation and financing activities if WHCY encounters any operational or financial difficulties.

Wendeng is a district of Weihai of Shandong Province, and is located in the central of Weihai. Wendeng realized a GDP of RMB64.3 billion in 2024, and the budgetary revenue grew by 4.0% to RMB4.3 billion.

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

Rating Rationale

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2025)

Government’s Ownership and Supervision: The Wendeng government holds 100% stake of WHCY through the State-owned Assets Service Center of Wendeng District of Weihai City (“Wendeng SASC”). Wendeng SASC is the sole shareholder and actual controller of the company. The Wendeng government has the final decision-making authority and strong supervision over the company, including the appointment of senior management and decisions on its major investment and financing plan. In addition, the Wendeng government has an assessment mechanism over the company and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Alignment and Importance: As an important LIDC in Wendeng, WHCY plays a major role in promoting the industrial investment in Wendeng. WHCY undertakes the industry chain of Panax quinquefolius and agricultural products such as grain and oil, as well as provision of public utility services such as water and heating supply, power generation and industrial steam production. Therefore, the company plays an important role in promoting the economic and social development in Wendeng. WHCY’s business operation and strategic planning have been aligned with the Wendeng government’s economic and social development plans.

Ongoing Government Support: WHCY receives ongoing operational and financial support from the Wendeng government. WHCY received operational subsidies of RMB581 million between 2023 and the first quarter of 2025. The Wendeng government, through Wendeng SASC, continued to provide capital, asset and equity injection to WHCY during the same period, which expanded WHCY’s asset size and financial strength. Given WHCY’s strategic

importance in Wendeng, we believe that the support from the Wendeng government remains intact.

WHCY's Financial and Liquidity Position: WHCY's total assets rose from RMB1.9 billion at end-2022 to RMB7.2 billion at end-March 2025, which was mainly due to the capital, asset and equity injections from the Wendeng government. On the other hand, its total debts increased to RMB2.0 billion at end-March 2025. The company's financial leverage, as measured by the debt to capitalization ratio, decreased to 37.5% at end-March 2025 from 50.4% at end-2022.

WHCY's short-term debt servicing pressure was tight. At end-March 2025, the company had an unrestricted cash balance of RMB0.3 billion and unused credit facilities of RMB0.2 billion, compared with its debt due within one year of RMB1.3 billion. Therefore, success in rolling over its short-term loan is critical in maintaining its liquidity. Nevertheless, the company has access to multiple financing channels, including bank loans, bond issuances and other non-traditional financing tools, to support its debt repayments and business operations.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Wendeng

Wendeng is a district of Weihai of Shandong Province, and is located in the central of Weihai. Wendeng has a total land area of 1,363 square kilometers. Wendeng had a residential population of 0.5 million with an urbanization rate of 60.5% at end-2023.

Wendeng realized a GDP of RMB64.3 billion in 2024, representing a year-over-year growth rate of 5.3%, compared with 6.3% recorded in 2023. Wendeng's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 34.3% and 53.5% of Wendeng's GDP in 2024, respectively. The fixed asset investment growth rate normalized to 5.1% in 2024, compared with 12.7% growth in 2023.

Wendeng's GDP and Fixed Asset Investment			
(RMB billion)	2022	2023	2024
GDP	50.9	52.5	64.3
-Primary industry (%)	12.9	12.8	12.2
-Secondary industry (%)	37.6	37.1	34.3
-Tertiary industry (%)	49.5	50.1	53.5
GDP growth rate (%)	1.5	6.3	5.3
Fixed asset investment growth rate (%)	-13.7	12.7	5.1
Population (million)	0.5	0.5	0.5
<i>Source: Financial Bureau of Wendeng, statistical bureau of Wendeng and Lianhe Global's calculations</i>			

Fiscal Condition of Wendeng

The budgetary revenue of the Wendeng government increased to RMB4.3 billion in 2024 from RMB4.1 billion in 2023, with the growth rate of 4.0%. The fiscal self-sufficiency rate of the Wendeng government remained weak, but its budget deficit narrowed down to 70.8% in 2024 from 85.4% in 2023. In addition, the government fund income rebounded to RMB4.7 billion in 2024 from RMB2.9 billion in 2023, which was mainly due to the increased of land use right transfer income.

The outstanding debt of the Wendeng government kept growing in past few years. At end-2024, the Wendeng government's outstanding debt increased to RMB28.8 billion from RMB23.5 billion at end-2023, mainly due to the issuance of special purpose debts to support local public projects. Its government debt ratio, as measured by the total government debt/aggregate revenue, increased to 244.0% at end-2024 from 240.2% at end-2023.

Wendeng's Fiscal Condition			
(RMB billion)	2022	2023	2024
Budgetary revenue	4.0	4.1	4.3
Budgetary revenue growth rate (%)	-13.7	2.4	4.0
Tax revenue	2.5	2.5	2.5
Tax revenue (% of budgetary revenue)	62.7	60.5	58.2
Government fund income	12.6	2.9	4.7
Transfer payment	2.7	2.8	2.8
Aggregate revenue	19.4	9.8	11.8
Budgetary expenditure	7.4	7.7	7.3
Budget balance ¹ (%)	-84.7	-85.4	-70.8
Government debt ratio (%)	104.7	240.2	244.0

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Financial Bureau of Wendeng, statistical bureau of Wendeng and Lianhe Global's calculations

Company Profile

Ownership Structure

WHCY was established in September 2019 with an initial registered capital of RMB50 million. Following an array of capital injections, WHCY's registered and paid-in capital were both RMB800 million at end-February 2025. Wendeng SASC is the sole shareholder and actual controller of the company.

Revenue Breakdown

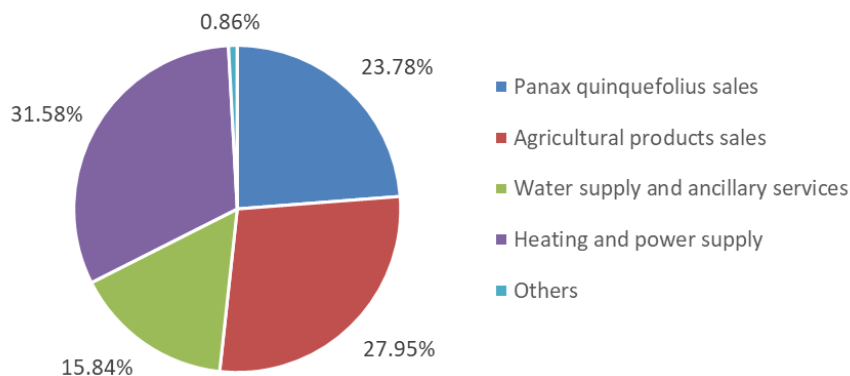
WHCY undertakes the industry chain of Panax quinquefolius and agricultural products such as grain and oil, as well as provision of public utility services such as water and heating supply, power generation and industrial steam production. The company recorded a total revenue of RMB157 million, RMB541 million, RMB579 million and RMB151 million in 2022-2024 and the first quarter of 2025, respectively. Its gross margin was steady and ranged between 18.2-23.9% during the same period.

WHCY is responsible for the entire industry chain for its Panax quinquefolius business, including procurement, processing, distribution and sales. Similarly, WHCY handles the sourcing, storage and sales of grain, oil and other agricultural products. On the other hand, WHCY operates the water supply network in urban areas, villages and other community areas in Wendeng. The company also provides heating supply for residential usage in winter,

along with power and steam supply for industrial usage. These services are mainly provided to the western region in Wendeng.

WHCY has an evenly distributed revenue mix for its major business segments, including Panax quinquefolius sales, agricultural products sales, water supply and ancillary services, and heating and power supply.

Total Revenue: RMB579 million in 2024

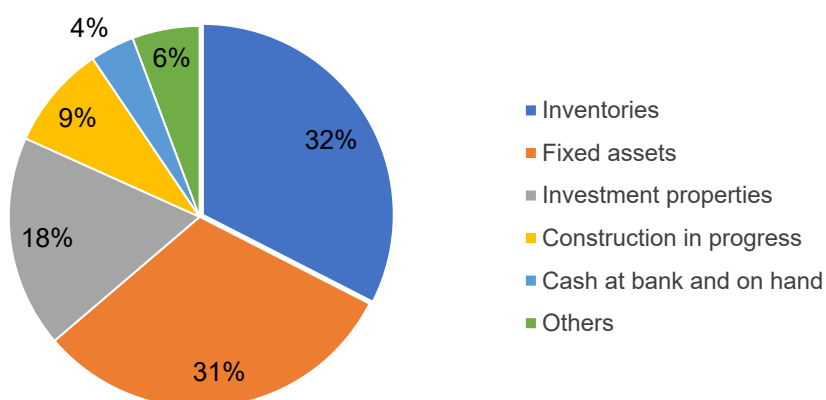


Source: The company's financial reports and Lianhe Global's calculations

Assets Breakdown

WHCY's asset liquidity was weak. At end-March 2025, the company's asset was mainly consisted of inventories, fixed assets and investment properties, which accounted of 32%, 31% and 18% of its total assets, respectively. These project-related assets face extended monetization timeframes due to protracted development cycles and cash collection periods. Therefore, the overall asset liquidity could be constrained.

Total assets: RMB7.2 billion at end-March 2025



Source: The company's financial reports and Lianhe Global's calculations



Key Financial Data

(RMB million)	2022	2023	2024	2025.3
Total Assets	1,947	4,262	7,141	7,211
Equity	394	1,717	3,377	3,389
Debt	399	1,383	2,027	2,035
Debt / (Debt + Equity) (%)	50.4	44.6	37.5	37.5
Unrestricted cash/ST Debts (x)	0.1	0.1	0.0	0.0
Debt/EBITDA (x)	(87.1)	7.7	11.5	-
Revenue	157	541	579	151
Operation Profit	-20	48	60	14
Gross Margin (%)	18.2	22.0	23.9	22.6
Cash from sales or services/ revenue (%)	83.3	104.8	107.8	88.1

Source: The company and Lianhe Global's calculations

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