

Lunan (Zaozhuang) Economic Development Investment Co., Ltd.

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	25 April 2025

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer Credit Rating of Lunan (Zaozhuang) Economic Development Investment Co., Ltd. (“LEDI” or “the company”); Issuer Rating Outlook is Stable

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Zaozhuang City, Shandong Province (“Zaozhuang government”) would provide strong support to LEDI if needed, in light of its full ownership of LEDI, LEDI’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Zaozhuang City (“Zaozhuang”), and the linkage between the Zaozhuang government and LEDI, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Zaozhuang government may face significant negative impact on its reputation and financing activities if LEDI encounters any operational and financial difficulties.

Zaozhuang is a prefecture-level city of Shandong Province (“Shandong”) and is located in the southern part of Shandong. Zaozhuang realized a GDP of RMB238.6 billion in 2024, and the budgetary revenue grew by 5.8% to RMB19.2 billion.

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

Rating Rationale

Zaozhuang Government’s Ownership and Supervision: The Zaozhuang government holds the full ownership of LEDI through the Zaozhuang Administrative State-owned Assets Operation Center’s (“Zaozhuang ASAOC”) fully-owned subsidiary, Lunan Development Investment Holding (Zaozhuang) Group Co. Ltd. (“LDIHG”). The Zaozhuang government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Zaozhuang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Zaozhuang and Strategic Alignment: LEDI, as the key LIDC in Zaozhuang, is primarily responsible for the investment, development and operation of infrastructure projects and supporting facilities within the city. Serving as the key entity in charge of infrastructure projects throughout the region, LEDI is mainly engaged in road, bridge and pipeline projects, industrial park development, healthcare and education projects, and other infrastructure related projects with strong regional advantages. In addition, the company assumes a vital position in various initiatives, including urban renewal, and real estate development projects. LEDI plays an important role in promoting the economic and

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Applicable Criteria

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

social development of Zaozhuang. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: LEDI received operational and financial support from the Zaozhuang government. The Zaozhuang government continued to inject capital, project-related assets, properties, equities of other companies and other kinds of assets into LEDI to expand its asset size and diversify its business. Besides, the Zaozhuang government will repurchase some infrastructure projects and provide policy supports to LEDI to ensure its business operation. Given that it is the key entity for infrastructure construction and state-owned assets operation in Zaozhuang, LEDI has an advantage in acquiring related resources and major projects. We believe LEDI is likely going to receive government support to support its daily business operation.

LEDI's Financial Matrix and Liquidity Position: LEDI's total assets showed a continuous growth trend in the past few years and reached RMB25.6 billion at end-September 2024, as the company actively participated in the infrastructure construction projects. The current assets of LEDI accounted for 54.4% of the total assets at end-September 2024, yet the overall asset liquidity was moderately weak due to large amount of inventories and investment properties. LEDI's financial leverage (total liabilities to total assets) increased to 57.3% and its adjusted debt increased to RMB7.4 billion at end-September 2024 from RMB7.1 billion at end-2023. LEDI's liquidity was tight. At end-September 2024, LEDI had a cash balance and unused credit facilities of RMB27.8 million and RMB0.8 billion, respectively, compared with its debt due within one year of RMB1.6 billion. Having said that, LEDI has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. LEDI also has other financing channels, such as bond issuance and non-traditional financing, to support its debt repayment and business operations.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Zaozhuang

Zaozhuang is a prefecture-level city of Shandong Province ("Shandong") and is located in the southern part of Shandong. Zaozhuang has a long history, as human beings have lived in the territory of the city as early as 7,300 years ago. Besides, Zaozhuang also has a wealth of coal resources and tourist attractions. Zaozhuang has jurisdiction over 5 districts, 1 county-level city and 1 national high-tech industrial development zone with a total land area of 4,564 square kilometers. At end-2023, Zaozhuang had a residential population of 3.8 million with an urbanization rate of 61.7%.

Zaozhuang realized a GDP of RMB238.6 billion in 2024, representing a year-over-year growth rate of 6.0%, lower from 6.4% recorded in 2023. Zaozhuang's economic growth was

mainly fueled by the secondary and tertiary industries, which accounted for 38.6% and 52.8% of Zaozhuang's GDP in 2024, respectively. The fixed asset investment growth rate accelerated to 5.7% in 2024, compared with a decrease of 7.2% in 2023. Meanwhile, Zaozhuang's GDP per capita reached c. RMB62,600 in 2024, which was lower than GDP per capita of Shandong (c. RMB97,800).

Zaozhuang's GDP and Fixed Asset Investment			
(RMB billion)	2022	2023	2024
GDP	203.9	215.7	238.6
-Primary industry (%)	9.5	9.3	8.6
-Secondary industry (%)	39.4	38.2	38.6
-Tertiary industry (%)	51.1	52.5	52.8
GDP growth rate (%)	4.5	6.4	6.0
Fixed asset investment growth rate (%)	10.1	7.2	5.7
Population (million)	3.8	3.8	3.8

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Zaozhuang

The aggregate fiscal revenue of the Zaozhuang government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Zaozhuang government increased to RMB19.2 billion in 2024 from RMB18.1 billion in 2023, with the contribution of tax revenue lowered to 61.3% from 64.2% over the same period. Although the fiscal self-sufficiency rate of the Zaozhuang government remained relatively weak, its budget deficit slightly narrowed to 85.0% in 2024 from 94.4% in 2023. The government fund income, mainly originated from land sales revenue, remained relatively stable in the past few years and reached RMB30.9 billion in 2024, accounting for nearly half of the aggregate revenue.

The outstanding debt of the Zaozhuang government kept growing in past few years. At end-2024, the Zaozhuang government's outstanding debt increased to RMB94.1 billion from RMB79.1 billion at end-2023, mainly due to the issuance of special debts to support local public projects. Its government debt ratio, as measured by the total government debt/aggregate revenue, had surged to 141.0% at end-2024 from 119.6% at end-2023.

Zaozhuang's Fiscal Condition			
(RMB billion)	2022	2023	2024
Budgetary revenue	16.9	18.1	19.2
Budgetary revenue growth rate (%)	6.3	7.2	5.8
Tax revenue	11.2	11.6	11.7
Tax revenue (% of budgetary revenue)	66.4	64.2	61.3
Government fund income	33.7	32.4	30.9
Transfer payment	14.5	14.7	15.8
Aggregate revenue	66.0	66.1	66.7
Budgetary expenditure	32.6	35.2	35.4
Budget balance ¹ (%)	-92.7	-94.4	-85.0

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

Source: Public information and Lianhe Global's calculations

Company Profile

LEDI was established in May 2008 with an initial registered capital of RMB400.0 million, funded by Zaozhuang ASAOC. After an array of equity transfers, LDIHG holds whole shares of the company, and the Zaozhuang government is the ultimate controller. The company's registered and paid-in capital was both RMB400.0 million at end-2024.



LEDI, as the key LIDC in Zaozhuang, is primarily responsible for the investment, development and operation of infrastructure projects and supporting facilities within the city. Serving as the key entity in charge of infrastructure projects throughout the region, LEDI is mainly engaged in road, bridge and pipeline projects, industrial park development, healthcare and education projects, and other infrastructure related projects with strong regional advantages. In addition, the company assumes a vital position in various initiatives, including urban renewal, and real estate development projects. The total operating revenue of LEDI was c. RMB1.6 billion, RMB0.5 billion, RMB0.5 billion and RMB0.8 billion in 2021, 2022, 2023 and first nine months of 2024, respectively. The gross profit margin fluctuated between 7% and 50% over the same period.

Key Financial Data				
(RMB million)	2021	2022	2023	2024.9
Total Assets	16,869	20,968	24,915	25,581
Equity	10,124	10,746	10,876	10,932
Debt	2,829	5,920	7,072	7,424
Debt / (Debt + Equity) (%)	21.8	35.5	39.4	40.4
Unrestricted cash/ST Debts (x)	0.7	0.1	0.0	9.6
Debt/EBITDA (x)	15.8	25.8	18.8	-
Revenue	1,590	514	495	770
Operation Profit	169	116	98	25
Gross Margin (%)	7.1	27.4	50.4	32.5
Cash from sales or services/ Revenue (%)	146.8	98.1	132.9	71.0

Source: LEDI and Lianhe Global's calculations

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