Qingdao Jiaozhou Bay Development Group Co., Ltd.'s 2019-1 Medium-term Notes

Ratings:
Long-term credit rating of the issuer: AA+
Credit rating of the medium-term notes (MTN): AA+
Rating Outlook: Stable

Scale of this MTN: CNY 0.7 billion
Maturity of this issue: 5 years
Debt servicing method: Annual interest payment, repayment of principal at maturity
Use of proceeds: Repayment of borrowings from financial institutions

Rating assigned date: March 18, 2019

Financial data

Item	2015	2016	2017	Sept. 2018
Cash assets (CNY 100mn)	3.84	1.75	9.04	10.87
Total assets (CNY 100mn)	245.24	280.89	293.71	319.97
Owners' equity (CNY 100mn)	119.79	121.23	124.15	124.26
Short-term liabilities (CN 100mn)	14.26	12.10	19.80	21.31
Long-term liabilities (CN 100mn)	44.67	59.55	70.03	90.43
Total liabilities (CNY 100mn)	58.93	71.65	89.83	111.74
Revenue (CNY 100mn)	4.73	14.12	3.59	3.24
Total profit (CNY 100mn)	0.93	1.77	2.92	0.12
EBITDA (CNY 100mn)	1.00	1.99	3.87	--
Net cash flow from operatin activities (CNY 100mn)	1.64	-18.48	-14.86	-14.78
Receivables/total assets (%)	13.80	20.82	13.89	13.68
Operating profit margin (%)	15.36	13.18	11.13	-26.99
ROE (%)	0.67	1.14	2.35	--
Debt-to-asset ratio (%)	51.16	56.84	57.73	61.16
Total debt-capitalization ratio (%	32.97	37.15	41.98	47.35
Current ratio (%)	289.19	268.17	297.18	305.64
Operating cash flow-to-curre liabilities ratio (%)	2.08	-18.92	-17.01	--
Total liabilities/EBITDA (x)	59.08	36.07	23.23	--

Note: The financial data of the third quarter in 2018 are unaudited.

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Rationale

Qingdao Jiaozhou Bay Development Group Co., Ltd. (hereinafter referred to as the "Company" or "Jiaozhou Bay Development") is the most important entity engaged in infrastructure construction, investment and financing in the Jiaozhou Economic and Technological Development Zone (hereinafter referred to as the "Jiaozhou Development Zone"), Qingdao. The ratings assigned by China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as "Lianhe Ratings") to the Company reflect the fact that it has a favorable external environment and has received considerable external support in terms of asset allocation, government subsidization and debt swaps. On the other hand, Lianhe Ratings also notices that the Company's credit standing is adversely affected by factors such as poor asset liquidity and profitability, significant fluctuations in earning results, continuous net outflow of operating cash and sharp increases in liabilities.

Both the Jiaozhou city and the Jiaozhou Development Zone have been developing rapidly in economic terms, thus providing a favorable external environment for the Company. Given the fact that the development plan for the Jiaozhou Development Zone will be further developed and the plan for the construction of the Shanghai Cooperation Organization (SCO) Demonstration Zone will obtain government approval, the regional economy will benefit from a strong momentum of development, and external support to the Company will continue to grow. Thus, Lianhe Ratings assigns the "stable" rating outlook to the Company.

Based on a comprehensive assessment of the issuer's long-term credit standing and its ability to repay debts associated with the MTN, Lianhe Ratings concludes that the risk of a default on repayment of the medium-term notes is very low, and the security of the MTN is quite high.

Strengths

1. As a state-level development zone, the

Jiaozhou Development Zone boasts clear geographical advantages which are conducive to the creation of a healthy external development environment for the Company.

2. The Company is the most important infrastructure construction, investment and financing entity in the Jiaozhou Development Zone, playing a key role in the development of the Jiaozhou Development Zone and the Jiaozhou City. It has received considerable external support in terms of asset allocation, government subsidization and debt swaps in recent years.

Concerns

1. The Company's revenues have fluctuated significantly, and the quality of cash return is relatively low, due to the slow progress of the Jiaozhou Development Zone project.
2. The Company's large inventories - relative to total assets - have resulted in a considerable amount of funds being tied up, with a high ratio of restricted assets to total assets and relatively poor asset liquidity.
3. Its liabilities have expanded sharply in recent years; and the Company currently has strong funding needs for ongoing and proposed construction projects, meaning that it is under considerable financing pressure.