

CCXAP assigns first-time long-term credit rating of BBB_g to Zibo Hi-Tech State-Owned Capital Investment Co., Ltd., with stable outlook.

Hong Kong, 2 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g long-term credit rating to Zibo Hi-Tech State-Owned Capital Investment Co., Ltd., (“ZBHT” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of ZBHT reflects Zibo High-tech Zone Government’s relatively strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Zibo High-tech Zone Government’s strong capacity to support reflects its vital role as a national high-tech zone in Zibo City and Shandong Province, with strong economic growth, good fiscal metrics and debt profile.

The rating also reflects the local government’s extremely high willingness to support, which is based on the Company’s (1) dominant role in local infrastructure construction and land development; (2) providing utility services with high replacement cost; (3) good track record of receiving government payments; and (4) good access to diversified funding channels. However, the Company’s rating is constrained by (1) moderate exposure to commercial activities with certain capital expenditure pressure; and (2) fast debt growth driven by large number of construction projects.

Corporate Profile

Founded in March 2019, ZBHT is the pivotal local infrastructure investment and financing company (“LIIFC”) in Zibo High-tech Zone, with the second largest total assets in Zibo City. As of 31 December 2021, it was directly and wholly owned by the Finance Bureau of Zibo High-tech Zone, and the Administrative Committee of Zibo High-tech Industrial Development Zone remained its actual controller. In accordance with the economic development strategy and social development requirements of Zibo High-tech Zone, ZBHT is responsible for public infrastructure and welfare projects, including infrastructure construction, land development, and water supply. It also has commercial operations, including commercial property development and operations, direct equity investments, and industrial investment fund businesses.

Rating Rationale

Credit Strengths

Dominant role in local infrastructure construction and land development. ZBHT is the first-level holding company under the Zibo High-tech Zone Government and the largest LIIFC in Zibo High-tech Zone. It has a clear strategic role in regional development. The Company is commissioned to carry out various key infrastructure construction and land development projects that are crucial to local economic development and benefit the general public and local employment.

Providing utility services with high replacement cost. ZBHT conducts water supply business to residents and industrial enterprises in Zibo High-tech Zone, with a relatively long concession for water supply business. We believe that the replacement cost for the Company's role is high as these public services are essential for the region.

Good track record of receiving government payments. ZBHT has a proven track record of receiving support from the local government in terms of capital injections, asset injections, and subsidies. From 2019 to 2021, ZBHT received more than RMB1.8 billion in government subsidies, which will give the Company more resources and flexibility to support new investments and constructions.

Good access to diversified funding channels. ZBHT had shown good access to various sources of funding, including bank loans and onshore and offshore bond financing. ZBHT's exposure to shadow banking lending is moderate and the proportion of non-standard borrowings is expected to decrease given the Company's diversified financing channels. Not only the Company, but also its subsidiaries, have good access to the capital markets.

Credit Challenges

Moderate exposure to commercial business activities with certain capital expenditure pressure. ZBHT's major commercial businesses include commercial property development and operations, direct equity investments, and industrial investment fund business, with relatively high capital expenditure pressure. However, most of these commercial activities are policy-driven which are related to public policy businesses. Therefore, the willingness of the government to provide support when necessary should be higher.

Fast debt growth driven by large number of construction projects. Due to the continued financing for construction projects, ZBHT's total debt has been growing rapidly over the past three years. As large pipeline projects, including infrastructure and commercial projects, require significant capital support, we expect the Company will need additional funding from external sources to repay its maturing debts and investing in new projects.

Rating Outlook

The stable outlook on ZBHT's rating reflects our expectation that the Zibo High-tech Zone Government's capacity to provide support will be stable, and the Company's characteristics such as its business profile and financial risks and controls will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zibo High-tech Zone Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially lowering exposure to risky commercial activities, and improving debt management and asset quality.

What could downgrade the rating?



The rating could be downgraded if (1) Zibo High-tech Zone government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decreased government payments, or increased exposure to commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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