

CCXAP assigns first-time long-term credit rating of BBB_g to Heze Finance Investment Group Co., Ltd., with stable outlook.

Hong Kong, 9 February 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g long-term credit rating to Heze Finance Investment Group Co., Ltd. (“HZFI” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of HZFI reflects Heze Municipal Government’s (1) strong capacity to provide support based on our assessment of Heze City; and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Heze Municipal Government’s capacity to provide support reflects Heze City’s increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government’s very high willingness to support, which is based on the Company’s (1) strategic role in the economic and social development of Heze City; (2) good track record of receiving government supports; and (3) good access to bank loans with sufficient standby liquidity. However, the rating is constrained by the Company’s (1) high exposure to commercial activities; (2) increasing debt burden; and (3) medium contingent risks resulting from external guarantees.

Corporate Profile

Founded in March 1994, HZFI is an important local infrastructure investment and financing company (“LIIFC”) in Heze City, which is one of the leading entities in the development blueprint of Heze Municipal Government. The Company plays a strong strategic role in the social, economic, and urban development of Heze City. Specifically, HZFI is responsible for major public policy projects, including infrastructure construction, land development and consolidation, policy-oriented grain storage, and public transportation. It also engages in commercial activities such as sales of housing, sales of commercial food and edible oil, cultural tourism, as well as industrial investment. As of 9 December 2022, the State-owned Assets Supervision and Administration Commission of Heze Municipal Government (“Heze SASAC”) had 100% ownership of HZFI.

Rating Rationale

Credit Strengths

Strategic role in the economic and social development in Heze City. HZFI is one of the most important LIIFCs in Heze City that undertakes city development projects and provision of public services. HZFI focuses on the key infrastructure construction projects, policy-oriented grain storage, public transportation, as well as land development and consolidation, which are crucial to the economic and social development of Heze City.

Good track record of receiving government supports. The Company has a good track record of receiving support from the local government in terms of subsidies, capital injection, special funds, and equity transfers. Considering HZFI’s strategic role in Heze City and close

relationship with Heze Municipal Government, we expect the local government will continue to enlarge the Company's asset size through cash and asset injection. We also believe that the Company will receive subsidies and special bonds from the local government in a timely manner.

Reasonable debt leverage, albeit increasing debt burden. HZFI maintained reasonable debt leverage with a total capitalization of 31.2% as of 30 June 2022, albeit the increasing total debt burden from continuous business expansion over the past three years. Driven by large capital expenditure needs of its construction projects, we expect the Company's total debt to continue to grow over the next 12-18 months but maintain a reasonable debt leverage.

Good access to bank loans with sufficient standby liquidity. HZFI is accepted by large domestic banks, of which bank loans accounted for approximately 80% of the total debt, with an average funding cost of less than 6%. In view of the HZFI's important status and key role in the social and economic development in Heze City, we expect the Company would not only maintain stable funding access from banks, but also diversify its financial channel to bond markets, which may gradually replace its shadow banking exposure in the coming years.

Credit Challenges

High exposure to commercial activities. HZFI engages in various commercial activities mainly including sales of housing, sales of commercial food and edible oil, cultural tourism, as well as industrial investment. HZFI's commercial assets accounted for large proportion of total assets, in our estimation, some of the commercial activities are subject to volatile market and counterparties risk.

Medium contingent risks resulting from external guarantees. HZFI had moderate exposure to external guarantees. As of 30 June 2022, the external guarantee amount of HZFI was RMB1.8 billion, accounting for 12.1% of its net asset. The external guarantee of RMB40 million was provided to a private-owned enterprise, which was subject to enforcement due to the financial loan dispute. In case a credit event occurs, relatively the Company may face certain contingent liability risks.

Rating Outlook

The stable outlook on HZFI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic role in the economic and social development of Heze City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Heze Municipal Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to support, such as lower exposure to risky commercial activities.

What could downgrade the rating?



The rating could be downgraded if (1) Heze Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, decreased government payments or deteriorated debt management.

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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