

CCXAP assigns first time long-term credit rating of BBB_g to Zouping Financial Development Group Co., Ltd., with stable outlook.

Hong Kong, 27 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g to Zouping Financial Development Group Co., Ltd. (“ZPFD” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of ZPFD reflects Zouping City Government’s (1) strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Zouping City Government’s capacity to support reflects its status as one of the top 100 counties in China, with moderate economic strength and fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) essential role in infrastructure construction and operation of Zouping City; (2) dominant position in providing public services; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) ongoing increase in debt level to support investment in public policy projects.

Corporate Profile

Founded in July 2019, ZPFD is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Zouping City. After consolidation of the local state-owned enterprises in 2022, the Company has become the most important LIIFC engaged in infrastructure construction, operation of land resources, and provision of essential public services such as heat supply and water supply, in accordance with the economic development strategy and social development requirements of Zouping City. The Company also expands to commercial activities such as trading, leasing, property development, as well as industrial investment including equity investment and fund investment. As of 31 December 2022, the Company was directly and wholly owned by the State-owned Assets Center of Zouping City and Zouping City Government was the ultimate controller.

Rating Rationale

Credit Strengths

Essential entity in infrastructure construction and operation of Zouping City. ZPFD acts as the essential LIIFC in Zouping City and is delegated by the local government to undertake local infrastructure construction, state-owned asset operation, as well as the operation of land resources, focusing on implementing the strategic blueprint for economic and district development in Zouping City. ZPFD’s important role in supporting local development of Zouping City is not easily replaced by other LIIFCs.

Dominant position in providing public services. ZPFD provides essential public services in Zouping City consisting of heat supply and water supply. These businesses demonstrate strong

public welfare nature and ensures a stable heat and water supply in specific areas. The Company recorded income from the heat supply business of RMB106 million and 155 million in 2021 and 2022, respectively. The revenue increased by 47.2% YoY in 2022, due to the integration of Zouping City's heating business. From 2020 to 2022, the income contributed by water supply and water quality control was more than RMB30 million.

Good track record of receiving government support. ZPFD has in the past received significant support from the local government in the form of project payments, capital contributions, equity transfers, cash and asset injections, and fiscal subsidies to support its investments and operation of its businesses. In light of ZPFD's key and strategic role in promoting the local development of Zouping City, we expect the Company to receive strong support from the local government when necessary.

Credit Challenges

Medium exposure to commercial activities. ZPFD actively explores new commercial business opportunities to diversify its sources of income. These commercial activities mainly include trading, leasing, property development, as well as industrial investment. Given the proportion of commercial assets to total assets was less than 30%, we estimate the ZPFD's exposure to commercial activities is medium.

Ongoing increase in debt level to support investment in public policy projects. ZPFD's total debt recorded rapid growth along with the ongoing investment in several infrastructure construction projects. The Company's total debt increased from RMB6.5 billion at end-2020 to RMB11.7 billion at end-2022; while the total capitalization ratio rose from 27.4% to 33.5%. We estimate, the Company requires to invest around RMB5.0 billion in 2023 in key projects under construction and planning.

Rating Outlook

The stable outlook on ZPFD's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its pivotal role in infrastructure construction and operation of Zouping City, will remain largely unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zouping City Government's capacity to support the Company strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowering its exposure to risky commercial activities and diversifying funding channels.

What could downgrade the rating?

The rating could be downgraded if (1) Zouping City 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 decrease in importance of its policy role, deteriorated debt management, or material decrease in government payments.

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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