

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>+ to Zibo City Asset Operation Group Co., Ltd., with stable outlook.**

Hong Kong, 19 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>+ to Zibo City Asset Operation Group Co., Ltd. (“ZCAO” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of ZCAO reflects Zibo Municipal Government’s very strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Zibo Municipal Government’s capacity to support reflects Zibo City’s status as a regional central city in Shandong Province, with sound economic fundamentals and relatively strong fiscal strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) high strategic importance as the urban developer and operator in Zibo City, with sufficient project reserves; (2) solid track record of receiving government payments; and (3) diversified funding sources. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, with large capital expenditure needs; and (2) rapid debt growth and moderate asset liquidity.

### **Corporate Profile**

Founded in 2003, ZCAO is the largest municipal-level local infrastructure investment and financing company (“LIIFC”) in Zibo City and plays the most important role in the urban development and operation of Zibo City. The Company is primarily responsible for local key public-policy activities, such as land consolidation, engineering construction, and infrastructure construction. In addition, ZCAO is also engaged in diversified profit-driven commercial activities such as property development, state-owned asset operations, and commodity sales. As of 15 May 2023, the Company was under the control of the Finance Bureau of Zibo City (“Zibo Finance Bureau”), which directly held 99.10% of the Company’s share. Moreover, China Development Bank indirectly held 0.90% of the Company’s shares through Guokai Infrastructure Fund Co., Ltd.

### **Rating Rationale**

#### **Credit Strengths**

**High strategic importance as the urban developer and operator in Zibo City, with sufficient project reserves.** ZCAO is the largest LIIFCs in Zibo City in terms of total assets and plays an essential role in local land consolidation and infrastructure construction. The Company is the most important entity delegated by Zibo Municipal Government to carry out such businesses, and implements the development plans for specific areas as formulated by the local government. Sufficient project reserves also ensure the sustainability of Company’s development.

**Solid track record of receiving government payments.** The Company has received ongoing support from the Zibo Municipal Government in terms of capital injections, project repayments, and operating subsidies. As of 31 March 2023, the Company's registered capital and paid-in capital had increased to RMB6.1 billion and RMB5.5 billion, respectively. We expect ZCAO to receive ongoing government support as needed to sustain the further construction of government-mandated public projects and investments.

**Diversified funding sources.** ZCAO's large investment needs could be partially supported by its good refinancing ability. It maintains good relationships with large state-owned banks and commercial banks and has sufficient liquidity buffer as of 31 March 2023. The Company is also an active issuer in the onshore debt capital market. In 2022, the Company issued 14 tranches of onshore bonds, raising RMB11.4 billion, with coupon rates ranging between 2.39% to 4.80%.

### Credit Challenges

**Medium exposure to commercial activities, with large capital expenditure needs.** Apart from public activities, ZCAO is also involved in a diversified range of commercial activities that contribute the majority of its revenue, including property development, state-owned asset operations, and commodity sales. These commercial activities may also entail higher operational and business risks than its public policy activities. At the same time, large expenditures will be incurred, which will exert financing pressure on the Company.

**Rapid debt growth and moderate asset liquidity.** ZCAO had reported fast debt growth owing to its large number of construction projects over the past few years. At the same time, the Company showed a relatively large proportion of short-term debt and moderate liquidity. Moreover, as of 31 March 2023, the Company's total asset mainly consisted of inventories and non-current assets, accounting for around 80% of total asset. The inventories are considered illiquid and could undermine the Company's financial position.

### Rating Outlook

The stable outlook on ZCAO's rating reflects our expectation that Zibo Municipal Government's capacity to provide support will remain stable, and that the Company will maintain its important strategic position in the development of Zibo City over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Zibo Municipal Government's ability 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 improved debt management and reduced exposure to non-standard financing.

#### What could downgrade the rating?

The rating could be downgraded if (1) Zibo Municipal Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local



government's willingness to provide support, such as reduced regional significance, increased exposure to commercial activities or a deteriorated financing ability.

### **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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