

CCXAP assigns first-time long-term credit rating of BBB_g to Shandong Zhengfang Holding Group Co., Ltd., with stable outlook.

Hong Kong, 23 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Shandong Zhengfang Holding Group Co., Ltd. (“SDZF” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of SDZF reflects Zoucheng City Government’s (1) strong capacity to provide support; and (2) extremely strong willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Zoucheng City Government’s capacity to provide support reflects Zoucheng City’s relatively good economic strength and fiscal metrics, as one of the Top 100 counties in China and the top counties by gross regional production (“GRP”) in Jining City.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in the infrastructure construction of Zoucheng City, especially the Zoucheng Economic Development Zone (“Zoucheng EDZ”); (2) increasing importance in the provision of local public utility services; and (3) solid track record of government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden with large investment needs; and (3) large share of non-standard financing and unstable financing structure.

Corporate Profile

Founded in 2010, SDZF is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng EDZ. The Company engages in diversified businesses, including infrastructure construction, bus operation, gas filling, industrial park operation, trading, and electricity and heat sales. SDZF was ultimately controlled by the Finance Bureau of Zoucheng City. As of 31 December 2022, the Finance Bureau of Zoucheng City held 76.51% of the Company’s shares, and Agricultural Development Infrastructure Fund Co., Ltd. held the remaining 23.49% of the shares.

Rating Rationale

Credit Strengths

Important role in the infrastructure construction of Zoucheng City. There are six major LIIFCs in Zoucheng City under the control of Zoucheng City Government. Each of them has a clear position under the government’s planning. Among them, SDZF is a key entity in infrastructure construction in Zoucheng City, mainly for projects in the Zoucheng EDZ such as industrial park construction, road construction and improvement, and river management. The Company has received government special bond funds for 12 major projects including industrial park projects and water supply projects.

Increasing importance in the provision of local public utility services. SDZF provides public utility services, including bus operations and heat supply in Zoucheng City with certain franchise advantages. The Company is the sole entity operating bus business in Zoucheng City. It also provides heat to residents in Dongtan, Baodian, Nantun mining areas and Yanzhou District, and provides steam to companies located in the Zoucheng EDZ. In addition, in 2022, the local government injected all the water plants in the urban and rural areas of Zoucheng City into the Company, which in turn expands the business scope to water supply in the future.

Good track record of government support. The Company has a good track record of receiving support from the local government in terms of obtaining franchised business, special fund allocations for project construction, financial subsidies, asset transfer, and equity shares transfer. Given the important role in infrastructure construction and public services provision in Zoucheng City, we expect the Company will continue to receive support from the local government.

Credit Challenges

Medium exposure to commercial activities. SDZF engages in various commercial activities including trading, cemetery services, leasing, labor services, industrial property development, gas filling and equity investments. The Company's commercial activities accounted for a large portion of its total assets while such business risks are considered medium.

Increasing debt burden with large investment needs. With the fast growth in the Zoucheng EDZ, the Company has undertaken many major projects, leading the total debt to continue increasing. Considering the Company's ongoing investment in infrastructure construction, industrial park construction projects and supporting infrastructure, it still needs to rely more on external financings such as government special funds, debt capital market and project loans to meet its capital needs.

Large share of non-standard financing and unstable financing structure. The Company has different financing channels such as banks, the domestic debt capital market, government special bond funds, and financial companies. However, it showed a reliance on non-standard financing and other payables, heightening the refinancing needs for the Company.

Rating Outlook

The stable outlook on SDZF rating reflects our expectation that the Zoucheng City Government's capacity to provide support will be stable, and the Company's characteristics such as its important role in the industrial development of Zoucheng City will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Zoucheng City 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 significantly improved refinancing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the Zoucheng City 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 or deteriorated refinancing 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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