

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

Hong Kong, 29 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g+ long-term credit rating to Heze Investment Development Group Co., Ltd. (“HZID” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of HZID reflects Heze Municipal Government’s (1) strong capacity to provide support based on our assessment; and (2) extremely 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 willingness to provide support, based on the Company’s (1) strong market position as the largest investment and financing entity in Heze City; (2) good track record of receiving government support; and (3) good access to multiple financing channels. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) rapid debt growth driven by the continuous investment in construction projects.

Corporate Profile

Founded in July 1990, HZID is the largest local infrastructure investment and financing company (“LIIFC”) in Heze City, in terms of asset size. The Company is primarily responsible for public activities, including infrastructure construction, water supply, heat supply, and steam supply. It also participates in different commercial activities such as property development, self-operated project construction, commodity sales, and manufacturing. As of 31 March 2023, the State-owned Assets Supervision and Administration Commission of Heze Municipal Government had 97.93% ownership of HZID and Heze Municipal Government was the ultimate controller of HZID. Shandong Caixin Asset Operation Co., Ltd., which was wholly owned by Shandong Provincial Department of Finance, had the remaining 2.07% ownership.

Rating Rationale

Credit Strengths

Strong market position as the largest investment and financing entity in Heze City. HZID carries out various infrastructure construction projects mainly through the engineering construction model, agent construction model, and PPP model. The sufficient project reserves ensure the sustainability of the Company’s infrastructure construction business. HZID also provides essential and regional dominant public services in Heze City through its several subsidiaries, including water supply, heat supply, and steam supply.

Good track record of receiving government payments. HZID has a good track record of receiving support from Heze Municipal government in terms of subsidies, capital injection, special funds, and equity transfer. Given the strategically important role of the Company in



Heze City and its close relationship with the Heze Municipal Government, we believe that the HZID will continue to receive different kinds of support from the local government.

Good access to multiple funding channels. HZID has good access to multiple financing channels such as bank loans, domestic bond issuance, and non-standard products financing. The debt from bank loans and bond issuances accounted for the majority of total debt. Benefiting from large proportion of bank loans with lower-cost, the weighted average financing cost of HZID was less than 5%. Considering, the Company's status as the largest LIIFC of Heze City, we expect HZID will continue to receive support from the local government.

Credit Challenges

Medium exposure to commercial activities. HZID's exposure to commercial activities is medium as the commercial assets accounted for less than 20% of total asset as of 31 March 2023. Apart from the public policy activities, the Company also participates in different commercial activities consisting of property development, self-operated project construction, commodity sales, and manufacturing. These market-driven businesses may also pose higher operating and business risks to the Company compared with its public-policy businesses, in our view.

Rapid debt growth driven by the continuous investment entity in construction projects. HZID's total debt rapidly increased from RMB8.4 billion as of 31 December 2020 to RMB17.5 billion as of 31 March 2023 due to the continuous investment in construction projects in Heze City. Although HZID's total debt recorded rapid growth, the Company maintained a moderate capitalization ratio over the past three years, thanks to the ongoing capital and asset injection from the local government. Furthermore, HZID's asset liquidity is moderate as its total assets mainly consist of assets with low liquidity. These include costs from construction projects (recorded as inventories, construction in progress, and other non-current assets), receivables, and lands (mainly recorded as intangible assets).

Rating Outlook

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

What could upgrade the rating?

The rating could be upgraded if (1) the 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, and improved debt management and asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the 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, deteriorated financing ability, or decreased 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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