

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

Hong Kong, 31 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Pizhou Industrial Investment Holding Group Co., Ltd. (“PZII” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of PZII reflects Pizhou City Government’s strong capacity to provide support, and extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the Pizhou City Government’s capacity to provide support reflects Pizhou City’s status as one of the Top 100 counties in China, with ongoing economic growth over the years. However, its fiscal balance is relatively weak.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction and industrial development in Pizhou City, particularly in the Economic Development Zone of Pizhou City (“Pizhou EDZ”) and the High-tech Industrial Development Zone of Pizhou City (“Pizhou HIDZ”); (2) good track record of receiving government support; and (3) diversified funding channels. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt burden from investment in infrastructure construction and factory construction; and (3) medium level of contingent risk.

Corporate Profile

Established in 2014, PZII is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Pizhou City, Xuzhou City. The local government has transferred 100% shares of Pizhou Economic Development Holding Group Co., Ltd. (“PZED”) and Jiangsu Jianqiu Gaoke Group Co., Ltd. (“JQGK”) to the Company in 2021. PZII is positioned as an important entity for infrastructure construction and industrial development in Pizhou City. It has engaged in different businesses through the Company itself and its subsidiaries in Pizhou City, particularly in Pizhou EDZ and Pizhou HIDZ, which include infrastructure construction, resettlement housing, land consolidation, sewage treatment, leasing, and commodity sales. As of 30 June 2023, the Company was wholly owned by the Finance Bureau of Pizhou City.

Rating Rationale

Credit Strengths

Importance role in infrastructure construction and industrial development in Pizhou City, particularly in Pizhou EDZ and Pizhou HIDZ. PZII is one of the key LIIFCs and the second largest one by total assets of Pizhou City. As an essential entity for urban construction and operation, the Company is mainly responsible for infrastructure construction, resettlement housing construction, land consolidation, and sewage treatment in Pizhou EDZ and Pizhou HIDZ. Considering the Company’s large project reserves, we believe that the potential substitution of PZII is relatively low and the Company is expected to maintain its importance for Pizhou City Government.

Good track record of receiving government support. In recognition of the importance of PZII to Pizhou City, the Company has received comprehensive support from the government in terms of capital injections, asset injections, project repayments, and operating subsidies. With the strengthening of investment attraction policy and the continuous inbound investment in Pizhou City, we expect the Company to receive ongoing government support to sustain the further construction of government-mandated public projects and investments.

Diversified funding channels. PZII has good access to funding including capital markets, bank borrowing and non-standard financing, which could partially release the pressure on debt repayment and capital expenditure. Bank borrowing accounts for most total debts and the Company maintains good relationships with large domestic banks. The Company also has good access to onshore capital markets.

Credit Challenges

Medium exposure to commercial activities. Apart from public activities, PZII also engages in other commercial activities including leasing, commodity sales, equity investment, and self-operated construction. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction businesses. The Company's exposure to commercial activities is considered medium, which accounted for around 30% of its total assets, based on our assessment.

Increasing debt burden from investment in infrastructure construction and factory construction. PZII shows a rising debt burden owing to its expansion in the construction of public-policy projects over the past few years. From 2020 to 2023H1, the Company's total debt increased to RMB20.2 billion from RMB14.9 billion. Its capitalization ratio, as measured by total debt to total capital, was recorded at a relatively high level of 49.9%. Besides, PZII's asset liquidity was influenced by its large restricted assets.

Medium level of contingent risk. The credit profile of PZII is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company had a relatively large amount of outstanding external guarantees of RMB12.6 billion, accounting for 62.3% of its net assets. Most of the guarantees are provided to other state-owned enterprises within Pizhou City. If a credit event occurs in the region, the Company may face certain contingent liability risks.

Rating Outlook

The stable outlook on PZII's rating reflects our expectation that the Company's position in Pizhou City will remain stable, and the Company will maintain its important role in the infrastructure construction and local industrial development of Pizhou City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Pizhou City 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 reduced exposure to commercial activities and reduction in the exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) the Pizhou City 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 policy significance or material increase in commercial activities.

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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