

CCXAP affirms Zibo Hi-Tech State-Owned Capital Investment Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 31 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Zibo Hi-Tech State-Owned Capital Investment Co., Ltd. (“ZBHT” or the “Company”) at BBB_g, with stable outlook. At the same time, CCXAP has affirmed ZBHT’s BBB_g senior unsecured debt rating.

The BBB_g long-term credit rating of Zibo Hi-Tech State-Owned Capital Investment Co., Ltd. (“ZBHT” or the “Company”) reflects Zibo High-tech Zone Government’s strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Zibo High-tech Zone Government’s capacity to support reflects its vital role as a national high-tech zone in Zibo City and Shandong Province, with strong economic growth, good fiscal metrics and debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in local infrastructure construction and land development; (2) providing utility services with high replacement cost; (3) good track record of receiving government payments; and (4) good access to diversified funding channels. However, the Company’s rating is constrained by (1) medium exposure to commercial activities with certain capital expenditure pressure; and (2) fast debt growth driven by large number of construction projects.

Corporate Profile

Founded in March 2019, ZBHT is the pivotal local infrastructure investment and financing company (“LIIFC”) in Zibo Development Zone for New and High Technology Industries (“Zibo High-tech Zone”), with the second largest total assets in Zibo City. As of 30 June 2023, it was directly and wholly owned by the Finance Bureau of Zibo High-tech Zone, and the Administrative Committee of Zibo High-tech Industrial Development Zone remained its ultimate controller. In accordance with the economic development strategy and social development requirements of Zibo High-tech Zone, ZBHT is responsible for public infrastructure and welfare projects, including infrastructure construction, land development, and water supply. It also has commercial operations, including leasing, automobile sales, direct equity investments, and industrial investment fund businesses.

Rating Rationale

Credit Strengths

Dominant role in local infrastructure construction and land development. ZBHT is the first-level holding company under the Zibo High-tech Zone Government and the sole LIIFC in Zibo High-tech Zone, which has a clear strategic role in regional development. The Company is commissioned to carry out various key infrastructure construction, land development projects and water supply business that are crucial to local economic development and benefit the general public and local employment.

Good track record of receiving government payments. ZBHT has a proven track record of receiving support from the local government in terms of capital injections, asset injections, and subsidies. From 2022 to 2023H1, the company received capital injection in terms of cash of RMB948.2 million from the Finance Bureau of Zibo High-tech Zone. Apart from that, the local government also transferred equity shares of some state-owned enterprises and franchise rights to the Company in 2022.

Good access to diversified funding channels. ZBHT had shown good access to various sources of funding, including bank loans and onshore and offshore bond financing. The Company maintains good long-term relationships with several banks. The Company also has a good track record for fund-raising activities in capital market. The Company's exposure to non-standard financing is generally controllable, accounting for around 20% of the total debt.

Credit Challenges

Medium exposure to commercial business activities with certain capital expenditure pressure. ZBHT's major commercial businesses include property leasing, automobile sales, direct equity investments, and industrial investment fund businesses, with relatively high capital expenditure pressure. Most of these commercial activities are policy-driven which are related to public policy businesses. Although the commercial assets account for more than 30% of total assets by the end of June 2023, we estimate the Company's risk exposure to commercial business is moderate.

Fast debt growth driven by large number of construction projects. Due to the continuous investment in infrastructure construction projects, ZBHT's total debt has been growing rapidly over the past three years. Given the Company's large capital expenditure pressure for its investment and construction projects under construction, we expect the Company will maintain a relatively high level of debt for the next 12-18 months.

Rating Outlook

The stable outlook on ZBHT's rating reflects our expectation that the Zibo High-tech Zone Government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Zibo High-tech Zone over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zibo High-tech Zone 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 lowering exposure to risky commercial activities, and improving debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Zibo High-tech Zone 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, decreased government payments, or increased exposure to 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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