

CCXAP assigns first time long-term credit rating of BBB_g- to Zoucheng Limin Construction Development Group Co., Ltd., with stable outlook.

Hong Kong, 2 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Zoucheng Limin Construction Development Group Co., Ltd. (“ZCLM” or the “Company”), with stable outlook.

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

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in infrastructure construction in Zoucheng City, especially in the Mencius Lake New District; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high refinancing needs and short-term debt burden; and (3) medium contingent liability risks.

Corporate Profile

Founded in 2012, ZCLM is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Zoucheng City, responsible for infrastructure construction in Zoucheng City, particular in the Mencius Lake New District. The Company diversified its business into infrastructure construction, engineering construction, property sales, property management, landscaping and product sales. As of 31 March 2023, Finance Bureau of Zoucheng City was the ultimate controller of ZCLM, holding 90% of the Company’s shares through Zoucheng Limin Holding Group Co., Ltd. The remaining 10% of the shares were held by Shandong Caixin Asset Operation Co., Ltd., which is wholly held by Shandong Province Department of Finance.

Rating Rationale

Credit Strengths

Important role in infrastructure construction in Zoucheng City, especially in the Mencius Lake New District. ZCLM is a key entity for infrastructure construction in Zoucheng City, especially the Mencius Lake New District of Zoucheng City. It has completed several projects since its establishment including ecological landscape construction of Yangxia river, the exhibition center, the Wanglan shanty town project and the Chenglan shanty town project. Both Wanlan and Chenglan have been listed as the key shanty town renovation projects of Shandong Province.

Good track record of receiving government support. ZCLM has received ongoing support from the local government including project payments, operational subsidies, capital injections,

equity shares transfer, and asset transfers. In 2022, the local government transferred RMB844 million of seedling assets and allocated RMB222 million in cash as ZCLM's capital reserves, enhancing its capital strength and bringing additional income. Given the important role of ZCLM in infrastructure construction in Zoucheng City, we expect the Company will continue to receive support from the local government over the next 12 to 18 months.

Credit Challenges

Medium exposure to commercial activities. ZCLM engages in various commercial activities including property development, property management, landscaping, product sales and self-operated projects. The Company's commercial activities accounted for a large portion of its total assets while the business risks are considered medium. While commercial activities contribute the vast majority of revenue and cash flow, they may also pose higher operating and business risks than traditional infrastructure construction businesses.

High refinancing needs and short-term debt burden. ZCLM has high refinancing needs caused by its relatively large portion of short-term debt with large maturity amount. As of end-2022, short-term debt accounted for 59.7% of total debt, of which the long-term debt due within 2023 amounted to around RMB2.3 billion. Considering its ongoing investment especially in commercial activities with longer investment period, we expected the Company's debt leverage to remain at a relatively high level over the next 12-18 months. ZCLM has a less balanced financing structure which also increases its refinancing risks.

Medium contingent liability risks. The Company bears moderate contingent risk resulting from large external guarantees. As of 31 December 2022, the Company's external guarantees amounted to RMB2.6 billion, accounting for 31.9% of its net assets, and were provided to local state-owned enterprises ("SOEs"). The phenomenon of mutual guarantees between local SOEs is common in Zoucheng City. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

Rating Outlook

The stable outlook on ZCLM's 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 infrastructure construction in 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; or (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 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, deteriorated refinancing ability, 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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