

Credit Opinion

23 June 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

Analyst Contacts

Jessica Cao +852-2860 7128

Credit Analyst

jessica_cao@ccxap.com

Leimen Chen +852-2860 7130

Assistant Credit Analyst

leimen_chen@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Shandong Zhicheng Agricultural Development Co., Ltd.

Surveillance credit rating report

CCXAP affirms long-term credit rating of BBB_g- of Shandong Zhicheng Agricultural Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Shandong Zhicheng Agricultural Development Co., Ltd (“SDZC” or the “Company”) reflects the Company’s (1) strong regional competitiveness in markets for agriculture-related operations; and (2) manageable financial leverage benefiting from the capital injection.

However, the rating is constrained by the Company’s (1) moderate revenue scale with low yield on assets; and (2) weak credit metrics along with fair sources of funding.

The rating also reflects a high likelihood of support from the Zoucheng Municipal Government when needed, which is based on the Company’s (1) direct ownership and ultimate control by the Zoucheng Municipal Government; (2) regional importance in rural revitalization and agricultural development in Zoucheng City; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

The stable outlook on SDZC rating reflects our expectation that the Company will maintain its regional competitiveness and importance in agricultural development in Zoucheng City over the next 12-18 months. We also expect the Company will continue to receive solid support from the local government.

Rating Drivers

- Strong regional competitiveness in markets for agriculture-related operations
- Supplemental income sources but limited by the small operational scale
- Manageable financial leverage benefiting from the capital injection
- Moderate revenue scale with low yield on assets
- Weak credit metrics along with fair sources of funding
- High likelihood of support from the Zoucheng Municipal Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government support for the Company improves; or (2) the Company's stand-alone credit profile improves significant, such as improvement in asset profitability and debt servicing capability.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as a deterioration in financial leverage and liquidity position.

Key Indicators

	2022FY	2023FY	2024FY
Total Assets (RMB billion)	3.7	11.0	12.6
Total Equity (RMB billion)	1.4	8.1	8.1
Total Revenue (RMB million)	170.1	361.1	459.8
Net Profit (RMB million)	57.0	71.0	46.0
EBIT Margin (%)	50.7	29.7	13.0
Return on Assets (%)	3.0	1.5	0.5
Total Debt/Total Capital (%)	58.5	24.9	33.1
Total Debt/EBITDA (x)	19.6	23.1	53.4
EBITDA/Interest (x)	1.1	1.2	0.5
FFO/Total debt (%)	4.1	3.8	1.6

All ratios and figures are calculated using CCXAP's adjustments.

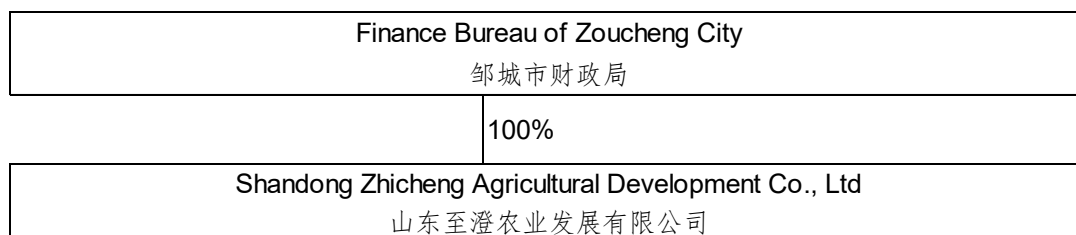
Source: Company data, CCXAP research

Corporate Profile

Established in January 2018, SDZC is a key local state-owned enterprise ("SOE") mainly operating in Zoucheng City, a county-level city in Jining City. The Company is positioned as a key entity in rural revitalization and agricultural development in Zoucheng City, with different business scopes covering agriculture-related trade, storage, infrastructure construction and industrialization, along with other businesses including land consolidation, leasing, and real estate development. In 2023, the local government transferred the recycled wastes with a book value of RMB5.9 billion to SDZC to integrate local resources and appointed SDZC as the sole SOE in Zoucheng City to conduct the recycled wastes sales business. After the asset injection, SDZC's

total assets increased to RMB12.6 billion as of end-2024. As of 31 December 2024, Finance Bureau of Zoucheng City wholly and directly held SDZC's shares.

Exhibit 1. Shareholding chart as of 31 December 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

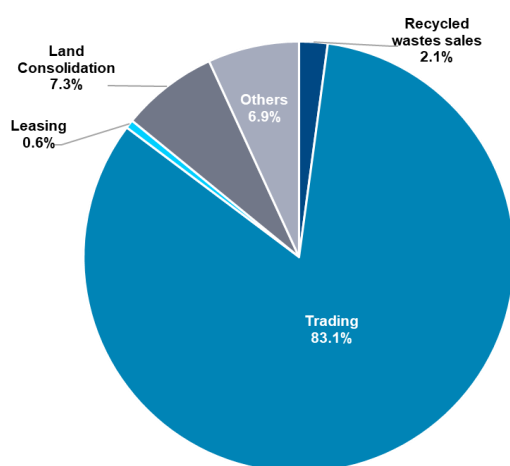
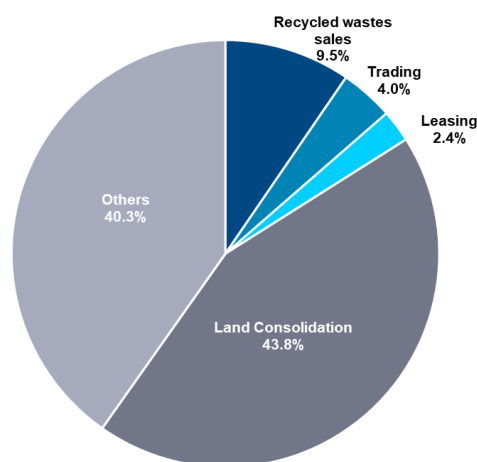


Exhibit 3. Gross profit structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Strong regional competitiveness in markets for agriculture-related operations

SDZC is one of the key SOEs in Zoucheng City and focuses on agricultural development, including grain and oil trading and reserves, agricultural industrial park construction, and agricultural infrastructure development, with a certain degree of regional exclusivity. The Company has strong regional competitiveness and stable market shares in those sectors by the support of local government.

The Company operates in trading and reserves business, mainly grain, edible oils, and other products. This segment is growing consistently and represents a major source of revenue. As Zoucheng City's key grain reserves operator, the Company manages Jinling municipal grain and edible oil reserves, minimum purchase price grain reserves, and central grain reserves under the government's entrustment. In compliance with policies, the Company follows a strict three-year rotation system, selling aged reserves while replenishing new stocks. In 2024, SDZC realized RMB27.3 million in sales of wheat and oil, corresponding to a gross profit margin of 9.44%. However, the Company is exposed to concentration risk in this business, as the top 5 customers accounted for 82.0% of the Company's sales volume in 2024. However, the government provides subsidies for

both grain storage operations and price differentials during rotation sales. In 2024, the Company received government subsidies totaling RMB18.3 million for this business.

SDZC also engages in the sales of commodities (primarily lint and coal), generating revenue of RMB328.8 million in 2024. The Company operates on a purchase-to-order model with cash-on-delivery settlement. Revenues from the commodity trading have generated stable cash flow for the Company these years. However, this business maintains an extremely low gross margin of less than 1% in 2024. Meanwhile, its coal sales rely entirely on a single customer, Shandong Lufa Intelligent Logistics Co. Ltd., which may lead to revenue concentration risk due to this customer dependency.

Apart from trading, SDZC promotes agricultural industrial development in Zoucheng City by participating in agricultural industrial park construction and operation, and mainly achieved financial balance through rental income or asset sales upon project completion. As of end-2024, the Company has five projects under construction, with a total investment of RMB2.7 billion, and outstanding amount of RMB1.8 billion. Among them, the Strawberry Demonstration Park was 70% complete, with 22 greenhouses sold, generating revenue of RMB4.3 million. However, these projects currently generate limited revenue and face long investment recovery cycles. Meanwhile, substantial additional funding is required, making short-term financial balance challenging.

The Company also participates in agricultural infrastructure construction, primarily through an agency construction model. Under this model, it is commissioned by clients to undertake urban construction projects, funded jointly by the clients and the Company's self-raised capital. During construction, the Company receives payments from clients based on actual costs plus a markup. However, the exact percentage of the markup remains undetermined. As of 31 December 2024, the Company had 3 projects under construction with an outstanding investment of RMB333.8 million. Revenue recognition is still pending as all three of these projects are incomplete. There was no infrastructure construction project under planning as of end-2024.

SDZC is commissioned by the local government to undertake land consolidation projects across Zoucheng City's townships. The Company partners with a private firm, Shandong Ligu Jinxiu Urban Development and Construction Co., Ltd ("Ligu Jinxiu"), where SDZC handles fundraising while Ligu Jinxiu executes the consolidation. Post-consolidation, surplus land quotas are sold to Zoucheng City Natural Resources and Planning Bureau to balance funding, with revenue shared between SDZC and Ligu Jinxiu at a 7:3 ratio. As of 31 December 2024, SDZC had consolidated 28.0 thousand mu of land with a total investment of RMB137.1 million, recognizing revenue of RMB227.0 million, while payment receipts amounted to RMB27.4 million upon project completion. However, this business exhibits delayed payment collections and remains highly sensitive to land market fluctuations and government policy changes.

Supplemental income sources but limited by the small operational scale

As authorized by the local government, the Company is the sole entity in Zoucheng City to conduct the sales of recyclable wastes. The recyclable waste sales primarily involve river sand and gravel resources extracted from property and river management projects. These resources were transferred to the Company by Zoucheng Municipal Government in 2023 at no cost. SDZC sells the materials through public bidding, with customers determining the contract price based on appraised project value. Upon revenue collection, the Company shares 30% of the proceeds with the local government. This business is highly susceptible to market conditions, with 2024 revenue declining to RMB9.8 million amid the market downturn. Nevertheless, it has consistently maintained an over 70% gross margin over the past three years despite its relatively small revenue scale. The Company will hold the franchise rights until 2038, which is expected to generate relatively stable revenue in the future.

The Company also operates leasing business, with assets primarily acquired through self-construction or government capital injections. As at the end of 2024, SDZC held 8 rental properties, all of which were 100% leased out, with annual rental income amounting to RMB2.7 million. The tenant base primarily consists of government entities and local SOEs. The leasing business shows relatively low operating costs, resulting in a high gross margin, with the gross margin of 62.9% in 2024. Although its total revenue base remains modest, this business serves as a reliable profit supplement to Company.

SDZC also undertakes property development business with self-raised funds. As of 31 December 2024, the Company had 1 commercial residential housing under construction with a total investment amount of RMB320.0 million and an unsettled amount of RMB152.1 million. This project has obtained a pre-sale license. However, due to the downturn of the real estate market, no revenue has been recognized as the property project has not commenced sales.

Financial Profile

Manageable financial leverage benefiting from the capital injection

Due to the expansion of its business scope and large capital expenditure on the construction development projects, SDZC's total debt increased rapidly from 2022 onwards. As of 31 December 2024, the Company reported total debt of RMB4.0 billion, a rapid increase from RMB2.0 billion at the end of 2022. However, the Company received assets transferred by shareholders, including recyclable waste materials and buildings, which increased its capital reserve by RMB5.9 billion in 2023. In the same period, shareholders injected RMB637.5 million in cash as capital contribution, raising the Company's paid-in capital to RMB647.5 million. The ongoing capital injection from the shareholders keeps the capitalization leverage ratio, measured by total debt to total capital, at a manageable level in recent years, which was 33.1% as of end-2024. Despite the increasing debt burden, SDZC had reasonable debt structure, with its short-term debt to total debt ratio being 28.2% at the end of 2024 and a cash to short-term debt ratio of 0.8x at the same date. Meanwhile, the Company has pledged RMB1.0 billion of assets for loans as of end-2024, accounting for 8.3% of total assets, and this may reduce its financial flexibility.

Moderate revenue scale with low yield on assets

Driven by the expansion in trading business, the Company's total revenue increased significant to RMB459.8 million in 2024, with a year-on-year ("YoY") increase of 27.3%. The trading business is the main contributor to SDZC's revenue, accounting for 83.1% of its total revenue, followed by land consolidation (7.3%), recyclable wastes sales (2.1%) and leasing (0.6%). However, the Company's EBIT dropped significantly to RMB60.0 million in 2024, represents a 44.1% decrease compared to 2023 levels, mainly due to thin margins in the trading business and declining revenue from recyclable waste sales. Meanwhile, with the decrease in EBIT from 2023 to 2024, SDZC's return on assets also decreased from 1.5% to 0.5%. The low return on assets primarily due to the Company's substantial non-income-generating assets, including shareholder transferred recyclable waste materials and acquired high-standard farmland, both of which contribute minimally to revenue. In addition, as of 31 December 2024, the Company had 5 self-constructed industrial parks that were under construction, with a total investment of RMB2.7 billion, and unsettled amount of RMB1.8 billion. As these projects have yet to generate operating revenue for the Company, the average yield on the Company's assets remained at a lower level.

Weak credit metrics along with fair sources of funding

SDZC's stand-alone debt servicing metrics are weak given its moderate profitability. The Company's 3-year average EBITDA coverage ratio (EBITDA/interest expense) was around 0.93x and the average total debt/EBITDA ratio was around 32.0x. As EBITDA has decreased, debt service metrics have weakened slightly. SDZC's core business cash generation capacity is good with a cash-to-revenue ratio over 0.8x during the past two years. However, its FFO/total debt ratio decreased to 1.6% in 2024 due to a significant decline in net profit and ongoing investment in project construction. Considering its business expansion, its debt scale may further increase in the future. Meanwhile, the Company's access to financing is moderate, with bank borrowing and non-standard financing products. Bank loans accounted for majority of the total debt, with a large proportion of more than 75%. As of 31 March 2025, the Company's total bank facilities amounted to RMB3.5 billion, with RMB305.0 million remaining undrawn, representing relatively limited standby liquidity. Meanwhile, the Company has certain exposure to non-standard financing which usually shows high financing costs, accounting for more than 15% of its total debt.

External Support

High likelihood of receiving support from the Zoucheng Municipal Government

We believe SDZC has a high possibility of receiving the support from the local government in times of need. This expectation incorporates our considerations of the Company's (1) direct ownership and ultimate control by the Zoucheng Municipal Government; (2) regional importance in state-owned asset operation and industrial development in Zoucheng City; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

Zoucheng City has developed "1+5" pillar industries including digital economy, intelligent equipment manufacturing, high-end green chemicals, new energy and new materials, health medicine, and industrial robots, stimulating Zoucheng City's economic growth in recent years. Zoucheng City is the largest county/district in Jining City by GRP. It had a GRP of RMB110.4 billion in 2024, accounting for the GRP of 18.8% of Jining City. In 2024, its general budgetary revenue increased by 5.5% YoY to RMB9.6 billion, of which tax revenue accounted for 56.0% of its general budgetary revenue, indicating relatively good fiscal quality. Meanwhile, the Zoucheng City Government has good financial self-sufficiency with fiscal balance ratios above 95% over the past three years.

Since SDZC's establishment, the local government transferred various state-owned equity and assets to the Company, broadening its business scope as well as enhancing operating and capital strength. In 2023, the government designated the Company as the exclusive entity for local recyclable waste sales and transferred related assets valued at RMB5.9 billion to the Company. The Company's capital reserve increased significantly from RMB1.3 billion at the end of 2022 to RMB7.3 billion. Moreover, the local government injected cash of RMB637.5 million as paid-in capital to the Company in 2023, further enhancing the Company's capital strength. SDZC is also responsible for policy-oriented grain storage that guarantee food supply in Zoucheng City. From 2023 to 2024, the Company received financial subsidies totaling RMB37.1 million to support its grain reserve business due to the public welfare nature.

Due to the Company's involvement in agricultural infrastructure projects, it has also received special government bonds over the past few years. In 2024, the Company received government special bonds amounted to around RMB310.0 million for supporting its investment in construction projects, lowering the funding cost. Overall, the solid track record of government support indicates the government's strong propensity to support the Company in the future.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656