

Credit Opinion

27 October 2022

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

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Zhejiang Changxing Financial Holdings Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Zhejiang Changxing Financial Holdings Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Zhejiang Changxing Financial Holdings Group Co., Ltd. (“ZCFH” or the “Company”) reflects Changxing County Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Changxing County Government’s capacity to provide support reflects its status as the 47th in the Top 100 Economic Counties in China in 2021, with good economic strength and moderate fiscal metrics, but a modest debt profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the primary platform fully owned and controlled by the Changxing County Government; (2) important position in land development and infrastructure construction in Changxing County; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium commercial business risk; (2) moderate debt management and asset liquidity; and (3) contingent liability risks in external guarantees.

The stable outlook on ZCFH’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its important role in land development and infrastructure construction in Changxing County.

Rating Drivers

- Primary platform for land development and infrastructure construction in Changxing County
- Good track record of receiving government payments
- Medium commercial business risk
- Moderate debt management and external guarantees
- Diversified funding sources

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 support, such as reduced exposure to commercial activities, increased government payments, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 support, such as decreased strategic significance, reduced government payments, or increased exposure to commercial activities.

Key Indicator

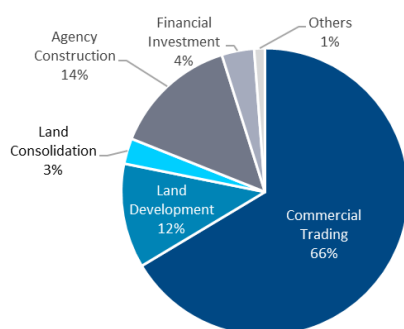
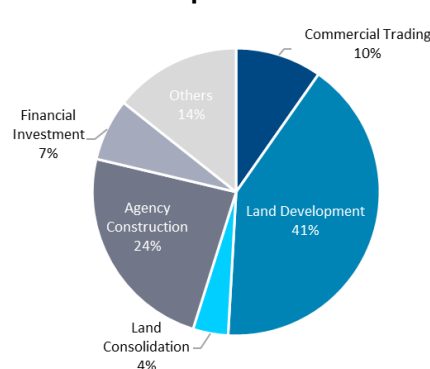
	2020FY (restated)	2021FY	2022H1
Total Asset (RMB billion)	70.5	82.8	85.8
Total Equity (RMB billion)	30.6	37.4	36.7
Total Revenue (RMB billion)	5.6	4.3	2.8
Total Debt/Total Capital (%)	52.2	50.3	52.5

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

Source: CCXAP research

Corporate Profile

Founded in 2011, ZCFH is one of the predominant state-owned capital management and industrial investment enterprise in Changxing County. The Company is mainly engaged in land development and infrastructure construction in Changxing County. In addition, the Company also conducts commercial business such as commercial trading, financial investment, and tourism. In 2021, the Company acquired Changxing Chengxi Construction Development Group Co., Ltd. ("Chengxi Construction"), and expanded the scope of its infrastructure construction business. As of 30 June 2022, the Company was wholly owned and controlled by the Changxing Finance Bureau.

Exhibit 1. Revenue structure in 2021**Exhibit 2. Gross profit structure in 2021**

Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that Changxing County Government has a strong capacity to provide support for the Company, which, in 2021, ranked 47th in the Top 100 Economic Counties in China and ranked 35th among all county-level cities in Zhejiang Province by gross regional product (“GRP”). The Company has good economic strength and moderate fiscal metrics. Changxing County is located in Huzhou City, a prefecture-level city in Zhejiang Province.

Huzhou City is located in the northern part of Zhejiang Province and is a node city connecting the north and south areas of the Yangtze River Delta region. In 2021, Huzhou City recorded a GRP of RMB364.5 billion, increasing by 9.5% year-over-year (“YoY”). Huzhou City’s GRP growth rate ranked 2nd in Zhejiang Province and has returned to the pre-pandemic level. With the support of increasing tax revenue, the general budgetary revenue of the Huzhou City Government increased from RMB33.7 billion in 2020 to RMB41.4 billion in 2021. Its fiscal balance remained at a moderate level, with a general budgetary revenue to general budgetary expenditure ratio of 78.8% in 2021. However, Huzhou City had a large debt burden, with outstanding debt of RMB102.3 billion at end-2021, accounting for 28.1% of its GRP and 87.3% of its total fiscal revenue.

Exhibit 3. Key Economic and Fiscal Indicators of Huzhou City

	2019FY	2020FY	2021FY
GRP (RMB billion)	312.2	320.1	364.5
GRP Growth (%)	7.9	3.3	9.5
General Budgetary Revenue (RMB billion)	31.6	33.7	41.4
General Budgetary Expenditure (RMB billion)	46.7	48.4	52.4
Local Government Debt (RMB billion)	73.3	83.7	102.3

Source: CCXAP research

Changxing County is the second largest county in Huzhou City in terms of GRP. According to CCID Consulting, Changxing County ranked 47th in the Top 100 Economic Counties in China in 2021. The pillar industries of Changxing County are textile, cement, and battery manufacturing. Changxing County has improved its industrial structure by strategically promoting emerging industries such as new types of batteries and new energy vehicles. Besides, it has developed a sizeable leisure facility, namely Longmont, with a total investment of around RMB25.0 billion. In 2021, Changxing County recorded a GRP of RMB80.1 billion, increasing by 9.5% YoY. The general budgetary revenue of Changxing Government increased from RMB6.8 billion in 2020 to RMB8.3 billion in 2021, with tax revenue accounting for 88.9% of the general budgetary revenue. However, it is worth noting that Changxing County had a relatively large debt burden. As of end-2021, Changxing Government’s

outstanding direct debt amounted to RMB17.8 billion, accounting for about 22.6% of its GRP and 85.9% of its total fiscal revenue.

Exhibit 4. Key Economic and Fiscal Indicators of Changxing County

	2019FY	2020FY	2021FY
GRP (RMB billion)	69.3	70.2	80.1
GRP Growth (%)	8.2	2.6	9.5
General Budgetary Revenue (RMB billion)	6.6	6.8	8.3
General Budgetary Expenditure (RMB billion)	8.1	9.0	10.2
Local Government Debt (RMB billion)	15.8	16.4	17.7

Source: CCXAP research

With the relief of the pandemic and the continuous development of the industries, the economic and fiscal situation of Huzhou City and Changxing County has gradually recovered. In the first half of 2022, Huzhou City's GRP grew 2.6% YoY to RMB178.4 billion, while Changxing County's GRP grew 3.1% YoY to RMB39.5 billion. Both growth rates outperformed the national level. We believe the sustainable economic development of Changxing County will provide a sound external environment for the Company's business development.

Government Willingness to Provide Support

Primary platform for land development and infrastructure construction in Changxing County

There are four major local infrastructure investment and financing companies ("LIIFCs") supporting the development of Changxing County. Each has a clear positioning under the planning of the local government. As of end-2021, ZCFH was the largest LIIFC by total assets in Changxing County. The Company is firmly committed to serving regional industrial development and actively participated in comprehensive land demolition and infrastructure construction projects in the region.

ZCFH has a strong regional position in the land development business in Changxing County. The Company was authorized by the local government and the management committee to conduct land development business through its subsidiaries Zhejiang Taihu New City Industrial Investment Co., Ltd. ("Taihu New City"), Zhejiang Changxing Huan Taihu Economic Investment Development Co., Ltd. ("Changxing Huan Taihu"), and Zhejiang Changxing Taihu Tuying Tourism Development Co., Ltd. ("Changxing Tuying"). Taihu New City is responsible for land leveling, demolition and infrastructure construction of 12.5 square kilometers in Taihu New District. Changxing Huan Taihu and Changxing Tuying carried out residents' relocation and land consolidation in Zhejiang Taihu Tuying Tourism Resort, which has an area of 23.8 square kilometers. The land development projects will be transferred to the local government for settlement, and the payments are equal to the project construction cost plus an additional profit margin. In 2021, the Company has recognized RMB623.0 million in revenue from the land development and consolidation business, accounting for 14.6% of its total revenue. However, land transfer is highly volatile and relies heavily on land market conditions and government policies. As of 31 December 2021, the Company had large inventories of RMB36.8 billion, mainly related to the land development business, which included land reserves and cost of land development such as land acquisition and demolition fees. This in turn ensured the sustainability of the Company's land development business.

ZCFH is also one of the key investment platforms responsible for infrastructure construction in Changxing County. After the consolidation of Chengxi Construction in 2021, the business scope of infrastructure construction expanded, mainly covering the Taihu New District, Taihu Tuying Tourism Resort, and Si'an Town Area, located in the Huzhou Provincial Demonstration Area for Undertaking Industrial Transfer. As of 31 December 2021, the Company has sufficient project reserves under construction, with an uninvested amount

of RMB971.0 million. The project reserves were mainly road construction and city upgrade projects. Considering the inclusion of Si'an Town Area, the Company's position in infrastructure construction has been strengthened.

Overall, the Company has played a significant role in the economic development of Changxing County. We expect the Company to maintain its strategic position in the foreseeable future, given its large pipeline of public-related projects and sufficient infrastructure construction projects under construction.

Good track record of receiving government payments

The local government provides strong support to the Company through various methods including project repayments, cash injections, equity transfers, asset injections and financial subsidies. In 2021, the local government enhanced the Company's capital strength by transferring the sewage pipe network and equity shares to the Company, together with the injection of capital which amounted to RMB5.6 billion. Furthermore, the Company had received government subsidies and financial interest subsidies in the past three years, with a total amount of RMB2.4 billion from 2019 to 2021. Given its important role in the land development and infrastructure construction business, we expect the local government will continue to support the Company in the foreseeable future.

Exhibit 5. Track record of government support from 2019 to 2021

(RMB million)	2019FY	2020FY	2021FY
Capital Injections	585	1,001	224
Equity Transfers	-	1,480	4,326
Asset Injections	-	29	1,005
Financial Subsidies	515	795	1,127
Total	1,100	3,305	6,682

Source: Company information, CCXAP Research

Medium commercial business risk

In addition to its primary business, ZCFH also participated in commercial activities such as commercial trading, financial investment, tourism and property leasing businesses. By the end of 2021, ZCFH had moderate exposure to commercial risk, with commercial business assets accounting for less than 30% of its total assets.

ZCFH's financial investment business mainly consists of equity investment and debt investment. Although these types of investments expose the Company to certain business risks, they are policy-driven to promote the development of local enterprises and industries. The Company's equity investment included industry funds focusing on local pillar industries such as intelligent manufacturing. Debt investments include various financial services such as guarantees and loans to local state-owned companies and private enterprises. As of 31 December 2022, Changxing County Chengxin Technology Finance Guarantee Co., Ltd. ("Chengxin Guarantee"), a wholly-owned subsidiary of the Company, had provided guarantees of RMB111.0 million to private enterprises. In 2021, the Company recognized interest income of RMB155.2 million from its financial investment business.

ZCFH's commercial trading business mainly includes the sales of materials related to battery production, such as electrolytic lead. The commercial trading business is the Company's largest source of revenue, accounting for 66.4% of its total revenue in 2021, but recording a low gross profit margin of less than 1%. The Company is entrusted by its clients to purchase goods and needed to make advance payments, resulting in capital occupation for around a month. Furthermore, the Company's high reliance on its top 5 customers and suppliers

increased uncertainties in its business. Its clients were mainly private enterprises such as Zhejiang Xinwei Energy Trading Co., Ltd.

The Company generates tourism income through operating the Tuying Wetland Cultural Park, a national 4A-level Scenic Area, and collects entrance fees from tourists. As for the leasing business, it involves the leasing of self-owned buildings and land. These businesses are easily affected by the pandemic and contribute less to the Company's revenue.

Moderate debt management and asset liquidity

ZCFH's total debt maintained an increasing trend due to its continued investment in public-related businesses and the long payback period of such businesses. The Company's total debt increased from RMB33.4 billion in 2020 to RMB37.9 billion in 2021, while the debt capitalization ratio (total debt to total capital) decreased from 52.2% in 2020 to 50.3% in 2021. The reason was mainly because of the transfer of equity shares from the local government. The Company's debt structure had improved, with an increase in long-term bond issuance and a decrease in non-standard borrowing. Long-term debt accounted for 66.4% of total debt in 2021. However, as of end-2021, the Company had a relatively large short-term debt burden because its cash on hand was insufficient to cover its short-term debt of RMB12.7 billion.

ZCFH's asset liquidity was moderate, as its assets were mainly illiquid inventories. As of end-2021, the inventories amounted to RMB36.8 billion, accounting for 44.4% of total assets. These inventories mainly consisted of land of RMB14.9 billion as well as land development and infrastructure construction cost of RMB20.0 billion. As of end-2021, the Company had RMB8.6 billion in cash on hand, with a restricted amount of RMB3.3 billion.

Diversified funding sources

ZCFH's good access to various funding sources, including bank loans and bond issuances, may partially ease its liquidity pressure. The Company maintains good relationships with large domestic banks such as the Agricultural Development Bank of China. As of end-2021, the Company's total credit facilities were RMB21.4 billion, of which the unutilized amount was about RMB3.7 billion. The Company also has good access to both the onshore and offshore debt markets. In the first nine months of 2022, the Company and its subsidiaries raised RMB2.2 billion through the onshore debt market, with a coupon rate ranging from 4.2% to 4.9%, and raised USD155.5 million through the offshore debt market. In addition, the Company's exposure to non-standard financing was relatively low at about 10%.

Contingent liability risks in external guarantees

Mutual guarantees between local state-owned enterprises ("SOEs") in Changxing County continue to exist. As a result, the Company is exposed to moderate contingent liabilities risks. At end-2021, the Company's external guarantee amounted to RMB10.1 billion, accounting for 27.1% of its net assets. Among them, the Chengxin Guarantee provided around RMB111.0 million for private enterprises to support the development of local industries, which are considered to have higher contingent liabilities risks. Since other portions of the guarantees were provided to other SOEs in Changxing County, the credit risks of the Company and other local SOEs may increase if the guaranteed entities have credit issues.

ESG Considerations

ZCFH is exposed to environmental risks by undertaking infrastructure construction and utility projects. Such risks could be mitigated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase. From January 2021 to October 2022, ZCFH issued five green bonds through the onshore and offshore debt markets. The issuance of green bonds is an important example of promoting innovative development of green finance, which can reduce its environmental risks.

In terms of corporate governance, ZCFH has established a sound and effective internal control framework, and has also set up a corporate governance structure in which shareholders, directors, supervisors, senior management team and internal departments jointly and efficiently perform their duties. The Company is subject to oversight and reporting requirements of the Changxing County Government, which has full control and supervision over the Company's operations.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Changxing Communications Investment Group Co., Ltd.	Zhejiang Changxing Financial Holdings Group Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -
Shareholder	Transportation Bureau of Changxing County (90%) and Zhejiang Financial Development Co., Ltd (10%)	Changxing Finance Bureau (100%)
Positioning	Transportation infrastructure construction and operation, and primary land development in Changxing County	Land development and infrastructure construction in Changxing County
Total Asset (RMB billion)	79.4	82.8
Total Equity (RMB billion)	35.5	37.4
Total Revenue (RMB billion)	4.5	4.3
Total Debt/Total Capital (%)	53.3	50.3

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

Source: CCXAP research

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