

Credit Opinion

2 November 2022

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

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Zibo Hi-Tech State-Owned Capital Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Zibo Hi-Tech State-Owned Capital Investment Co., Ltd., with stable outlook.

Summary

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 relatively 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 strong 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 extremely high 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) moderate exposure to commercial activities with certain capital expenditure pressure; and (2) fast debt growth driven by large number of construction projects.

The stable outlook on ZBHT’s rating reflects our expectation that the Zibo High-tech Zone Government’s capacity to provide support will be stable, and the Company’s characteristics such as its business profile and financial risks and controls will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Dominant role in local infrastructure construction and land development
- Providing utility services with high replacement cost
- Good track record of receiving government payments
- Moderate exposure to commercial activities with certain capital expenditure pressure
- Good access to diversified funding channels
- Fast debt growth driven by large number of construction projects

Rating Sensitivities

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 materially lowering exposure to risky commercial activities, and improving debt management and asset quality.

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.

Key Indicators

	2019FY	2020FY	2021FY	2022Q1
Total Asset (RMB billion)	21.0	33.6	47.5	52.0
Total Equity (RMB billion)	8.0	11.1	16.2	16.3
Total Revenue (RMB billion)	0.9	1.6	2.5	0.6
Total Debt/Total Capital (%)	53.5	55.2	55.1	56.7

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

Source: CCXAP research

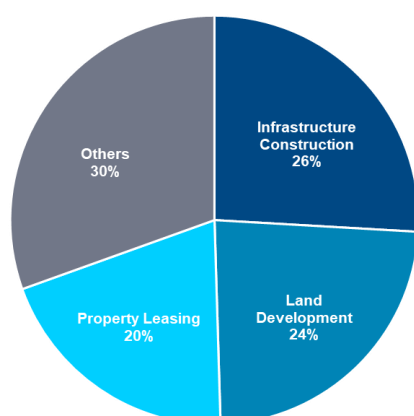
Corporate Profile

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 31 December 2021, 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 actual 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 commercial property development and operations, direct equity investments, and industrial investment fund businesses.

Exhibit 1. Shareholding chart as of 31 December 2021

淄博高新技术产业开发区财政金融局 Finance Bureau of Zibo High-tech Zone	
	100.00%
淄博高新国有资本投资有限公司 Zibo Hi-Tech State-Owned Capital Investment Co.,Ltd.	

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2021

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe the local government of Zibo High-tech Zone has a relatively strong capacity to provide support given its good economic fundamentals and fiscal strengths.

In 2021, Shandong is the third largest province in China by gross regional products ("GRP"), with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Zibo City is located in the central part of Shandong Province, which is one of the core cities of Shandong Peninsula Urban Agglomeration and a regional central city in Shandong Province approved by the State Council. Zibo City recorded GRP of RMB364.2 billion, RMB367.4 billion and RMB420.1 billion in 2019, 2020, and 2021 respectively, ranking the 7th by GRP among 16 prefecture-level cities in Shandong Province. The growth rate of GRP increased to 9.4% in 2021 from 3.5% in 2019. Zibo City has strong fiscal strength and a manageable debt profile. In 2021, its general budgetary revenue covered around 70% of its general budgetary expenditure, and tax incomes accounted for nearly 75% of its general budgetary revenue. As of end-2021, Zibo City's government debt balance was RMB94.6 billion, accounting for 22.5% of GRP. In the first half of 2022, Zibo City's GRP was RMB219.9 billion, a YoY increase of 4.2%.

Exhibit 3. Key Economic and Fiscal Indicators of Zibo City

	2019FY	2020FY	2021FY
GRP (RMB billion)	364.2	367.4	420.1
GRP Growth (%)	3.5	2.5	9.4
General Budgetary Revenue (RMB billion)	36.9	32.2	36.9
General Budgetary Expenditure (RMB billion)	50.0	52.3	52.3
Local Government Debt (RMB billion)	63.4	77.5	94.6

Source: CCXAP research

Zibo High-tech Zone was established as a national high-tech zone with the approval of the State Council of China in 1992. It is a national new materials industrialization base named by the Ministry of Science and Technology of China. It is also a National Innovation Demonstration Zone (“国家自主创新示范区”) and Pilot Zone of New and Old Kinetic Energy Conversion (“新旧动能转换试验区”) in Shandong Province, as well as a provincial economic development zone established with the approval of Shandong Province Government. Zibo High-tech Zone has demonstrated stable economic growth in recent years. In 2021, the GRP of Zibo High-tech Zone increased by 11.9% YoY to RMB33.7 billion, as compared to that of 3.6% in 2019. In addition, Zibo High-tech Zone has a good fiscal balance, with a high general budgetary revenue/general budgetary expenditure of 120.7%. It also has a moderate debt profile, with a government debt/GRP ratio of 26.3% as of 31 December 2021. In the first half of 2022, the GRP of Zibo High-tech Zone was RMB19.5 billion, a YoY increase of 10.7%, with a fast growth rate in Zibo City.

Exhibit 4. Key Economic and Fiscal Indicators of the Zibo High-tech Zone

	2019FY	2020FY	2021FY
GRP (RMB billion)	27.2	28.5	33.7
GRP Growth (%)	3.6	8.2	11.9
General Budgetary Revenue (RMB billion)	4.0	3.9	4.8
General Budgetary Expenditure (RMB billion)	3.7	3.8	4.0
Local Government Debt (RMB billion)	3.4	6.8	8.9

Source: CCXAP research

Government’s Willingness to Provide Support**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 largest 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 and land development projects that are crucial to local economic development and benefit the general public and local employment.

The Company’s subsidiary, Zibo High-tech City Investment and Operation Group Co., Ltd., mainly engages in the infrastructure construction business through the entrusted construction model and the government services purchase model. Under the entrusted construction model, the Company signs an entrusted construction agreement with the government before each project is developed, and transfers the project ownership to the government or related parties after the project is completed. The government will pay the total cost plus a few percentage markups after examining the projects. Under the government services purchase model, the Company manages infrastructure projects assigned by the local government according to the agreements and

receives construction costs and service fees annually. Projects completed by ZBHT included schools, elderly rehabilitation centers, new countryside construction projects, and urbanization construction projects.

The Company has large construction projects and sufficient project reserves. Key construction projects are Project of Comprehensive Pipeline Construction in the North Extension of West Fifth Road in Zibo High-tech Zone, Zibo High-tech Zone North/South/East Shantytown (urban village) Reconstruction Projects, and Construction Project for Comprehensive Ecological Management of Zhulong River in Zibo High-tech Zone. The construction projects had a total investment amount of RMB9.0 billion and an uninvested amount of RMB3.5 billion, respectively.

Additionally, the Company launched the land development business in 2019 and adopted the entrusted construction model. Zibo High-tech Zone Land Reserve and Development Co., Ltd. entrusted the Company with the responsibility for developing and consolidating the land parcels of 82 square kilometers within the four boundaries of Jiqing Highway, Yellow River Avenue, Lushan Avenue and Binlai Highway in Zibo High-tech Zone. The total investment is estimated to be RMB5 billion and the expected repayment period is from 2019 to 2026.

Exhibit 5. Public projects under construction as of 31 December 2021

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB billion)	(RMB billion)	(RMB billion)
Infrastructure Construction	8	9.1	5.6	3.5
Land Development	1	5.0	1.1	3.9
Total	9	14.1	6.7	7.4

Source: Company information, CCXAP Research

We believe the visibility and predictability of the Company's business position is high and its policy mandate is strong. We also expect the Company to undertake most of the public projects in the mandated areas and transfer-out of its public projects is unlikely.

Providing utility services with high replacement cost

ZBHT conducts water supply business to residents and industrial enterprises in Zibo High-tech Zone through Yongquan Water Supply Co., Ltd. The Company has a relatively long concession for water supply business with over 20 years, demonstrating strong sustainability. As of December 2021, the Company provides water to a population of 56,000 with a pipeline length of 160 kilometers, which covered an area of 30 square kilometers. It owns one water plant with a daily water supply capacity of 20,000 tons. From 2019 to 2021, the Company's water supply business generated stable revenue of RMB15.5 million, RMB14.7 million, and RMB16.4 million, respectively. We believe that the replacement cost for the Company's role is high as these public services are essential for the region.

Moderate exposure to commercial business activities with certain capital expenditure pressure

ZBHT's major commercial businesses include commercial property development and operations, direct equity investments, and industrial investment fund business, with relatively high capital expenditure pressure. Although the commercial assets account for more than 30% of total assets as of end-2021, we estimate the Company's risk exposure to commercial business is moderate.

The Company is responsible for attracting investment in Zibo High-tech Zone. Its projects mainly focus on industrial parks, materials parks, instrument parks, commercial buildings, and factories, providing preferential rents for settled enterprises. From 2019 to 2021, the Company generated income from commercial property leasing of RMB203.4 million, RMB294.3 million, and RMB509.1 million, respectively. As of 31 December 2021, the total investment of projects under construction was RMB20.5 billion, and the uninvested amount of RMB14.1 billion, which is expected to provide the Company with rental or sales income after completion. In addition, the Company planned to construct the second and third phases of the Science City, with an estimated total investment of RMB6.4 billion.

The Company also conducts direct equity investment and fund investment business through its subsidiary, Zibo High-tech Industry Investment Co., Ltd. The Company had participated in the establishment of industrial investment funds and invested in several industries such as new materials, medicine, electronic information, and intelligent equipment manufacturing. As of 31 December 2021, the total investment of the fund was RMB19.1 billion, of which the Company's subscription amount was RMB9.0 billion. Moreover, the Company has a cumulative direct equity investment of RMB2.1 billion. As most of the direct investment targets are private startup enterprises, the return on investment is subject to great uncertainty. While some of them are listed companies, such as Polestar Automotive Holding Limited, the investment income would be recorded in the next few years. Furthermore, the Company's direct investment also makes it bear certain risk exposure to local private-owned enterprises, which have higher operation risks during a market downturn.

However, most of these commercial activities are policy-driven which are related to public policy businesses. ZBHT's commercial businesses are responsible for attracting high-tech companies to settle in Zibo High-tech Zone, which helps support regional economic development. Therefore, the willingness of the government to provide support when necessary should be higher. Additionally, the construction costs of some commercial properties were financed through local government special bonds, which partially eased the Company's capital expenditure pressure.

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 2019 to 2021, ZBHT received ongoing government payments in the amount of RMB700 million, RMB891 million, and RMB1,596 million, respectively. In 2019, Zibo High-tech Zone Administrative Committee transferred high-quality assets including several companies to the Company, increasing the Company's capital reserve by RMB6.8 billion. In 2020, the Company received a capital injection of RMB495 million from the Finance Bureau of Zibo High-tech Zone. In 2021, through the injections of local government assets, the Company's capital reserve increased by RMB4.0 billion. In addition, from 2019 to 2021, ZBHT received more than RMB1.8 billion in government subsidies, which will give the Company more resources and flexibility to support new investments and constructions.

We expect that, as the largest local state-owned enterprise in Zibo High-tech Zone, the Company plays an irreplaceable role in the development and operation of the region, and the local government has an extremely high willingness to provide support to the Company.

Fast debt growth driven by large number of construction projects

Due to the continued financing for construction projects, ZBHT's total debt has been growing rapidly over the past three years. The Company's total debt increased from RMB9.2 billion at the end-2019 to RMB21.3 billion at end-2022Q1, while the total capitalization ratio rose slightly from 53.5% to 56.7%. The Company's liquidity

profile is moderate. As of 31 March 2022, the Company's short-term debt amounted to RMB6.6 billion, accounting for 30.8% of the total debt. Moreover, its cash to short-term debt ratio was 0.3x, indicating certain short-term debt repayment pressure. As large pipeline projects, including infrastructure and commercial projects, require significant capital support, we expect the Company will need additional funding from external sources to repay its maturing debts and investing in new projects.

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. As of 31 December 2021, the Company had total credit facilities of RMB17.7 billion, with the available portion being RMB6.9 billion. The credit facilities were provided by diversified domestic banks, including national joint-stock commercial banks such as Bank of Communications, China Everbright Bank; large state-owned commercial banks such as China Construction Bank, Industrial and Commercial Bank of China Limited.

ZBHT's exposure to shadow banking lending is moderate, and its proportion in non-standard products such as finance leasing and trust loans is maintained at around 20%. This exposure is manageable as the Company has clear internal control over high-cost financing channels and maintains a moderate cost in non-standard products of around 7%. Besides, the proportion of non-standard borrowings is expected to decrease given the Company's diversified financing channels. Not only the Company, but also its subsidiaries, have good access to the capital markets. From 2019 to 2022H1, the Company and its subsidiary issued 12 domestic bonds totaling RMB6.0 billion, with coupon rates ranging from 5.0% to 6.5%. It also issued one offshore bond of USD71 million with a coupon rate of 4.9%.

Considering the Company's important status as the sole platform providing utility services in Zibo High-tech Zone, we expect ZBHT to maintain access to domestic bank loans and capital markets.

ESG Considerations

ZBHT assumes environmental risks through its infrastructure and land development projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social concerns, the Company plays a crucial role in the social welfare of the residents in Zibo High-tech Zone by providing public services. In addition, as the largest state-owned entity in Zibo High-tech Zone, the Company has taken a number of measures to ensure the provision of utility and the daily needs of the residents. It also provided rent relief to local enterprises during the pandemic control period.

In terms of corporate governance, the Company has established an effective corporate governance structure consisting of investors, party committee, the board of directors, board of supervisors, general manager, and the management team, and has formulated the rules and procedures for meetings of the party committee, the board of directors, the board of supervisors and the general manager's office. The Company has also set up four functional departments: the general management department, the financial investment and financing department, the enterprise management department and the audit and supervision department. The organizational structure and various departments ensure the operating effectiveness of the Company. In addition, ZBHT is subject to oversight and reporting requirements of the Zibo High-tech Zone 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 \(July 2022\)](#).

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