

Credit Opinion

4 December 2023

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

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Zhejiang Changxing Financial Holdings Group Co. Ltd.

Surveillance credit rating report

CCXAP upgrades Zhejiang Changxing Financial Holdings Group Co. Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Zhejiang Changxing Financial Holdings Group Co., Ltd. ("ZCFH" or the "Company") to BBB_g from BBB_{g-}, with stable outlook. The rating upgrade is based on the promising development trend of the Company's industrial fund investments with the good industrial environment in Changxing County. It also reflects the local government's willingness to provide support to the Company has increased.

The long-term credit rating of ZCFH reflects Changxing County Government's strong capacity and extremely 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 ranking as the 55th among the Top 100 Economic Counties in China in 2023, with good economic strength and moderate fiscal metrics.

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) medium 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
- Medium contingent liability risks in external guarantees

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 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 or reduced government payments.

Key Indicators

	2020FY (restated)	2021FY (restated)	2022FY	2023H1
Total Asset (RMB billion)	70.5	82.6	83.9	90.8
Total Equity (RMB billion)	30.6	37.2	37.0	37.8
Total Revenue (RMB billion)	5.6	4.3	4.1	1.1
Total Debt/Total Capital (%)	51.8	50.8	50.0	53.4

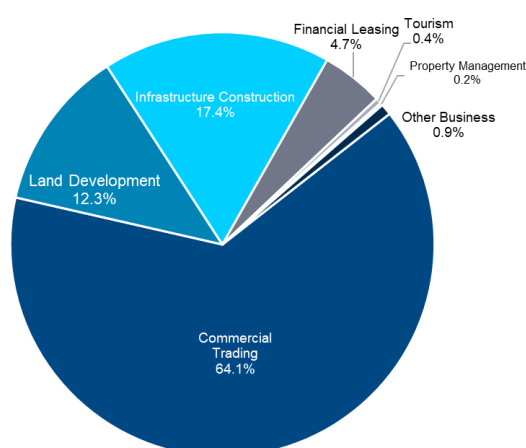
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 2011, ZCFH is one of the predominant state-owned capital management and industrial investment enterprises 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. As of 30 June 2023, the Company was wholly owned and controlled by the Changxing Finance Bureau.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Changxing District Government has a strong capacity to provide support as reflected by good economic strength and moderate fiscal metrics. However, the local government's capacity to support is constrained by its relatively weak debt profile.

Located in the northern part of Zhejiang Province, Huzhou City is the node city connecting the north and south areas of the Yangtze River Delta region. In recent years, Huzhou achieved sound economic development with the strengthening of traditional industries and new industries like new material, information technology and equipment. In 2022, Huzhou City recorded a gross regional product ("GRP") of RMB385.0 billion, increasing by 3.3% year-over-year ("YoY"). Huzhou City Government's general budgetary revenue decreased from RMB41.3 billion in 2021 to RMB38.7 billion in 2022 due to a land market downturn. In addition, due to tax reduction policy, the proportion of tax revenue dropped from 93.0% in 2020 to 88.7% in 2022. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 64.3% in 2022. However, Huzhou City's debt burden was large with an outstanding direct government debt of RMB118.9 billion at end-2022, accounting for 30.9% of its GRP and 85.7% of its total fiscal revenue. In the first half of 2023, Huzhou's GRP increased by 5.7% YoY to RMB186.8 billion.

Exhibit 2. Key Economic and Fiscal Indicators of Huzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	320.1	364.5	385.0
GRP Growth (%)	3.3	9.5	3.3
General Budgetary Revenue (RMB billion)	33.7	41.4	38.7
General Budgetary Expenditure (RMB billion)	48.4	52.4	60.2
Local Government Debt (RMB billion)	83.7	102.3	118.9

Source: Statistics Bureau of Huzhou City, CCXAP research

Changxing County is the second largest county in Huzhou City in terms of GRP. According to CCID Consulting, Changxing County ranked 55th among the Top 100 Economic Counties in China in 2023. 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, and has developed a sizeable leisure facility, namely Longmont, with a total investment of around RMB25 billion. Good industry structure and economic environment create the environment for listed companies' growth and industrial investment. As of 31 December 2022, there were 10 listed companies in Changxing County. In 2022, Changxing County recorded a GRP of RMB85.3 billion, increasing by 4.2% YoY. We believe that the sustainable economic development of Changxing County provides a sound external environment for the Company's business development. Due to tax refunds and the pandemic, Changxing County Government's general budgetary revenue decreased slightly from RMB8.3 billion in 2021 to RMB8.2 billion in 2022, and tax revenue accounted for 91.7% of its general budgetary revenue in 2022. Changxing County had a relatively large debt burden. As of end-2022, Changxing County Government's outstanding direct debt amounted to RMB19.1 billion, accounting for about 22.4% of its GRP and 91.3% of its total fiscal revenue. Besides, since there are many local infrastructure investment and financing companies ("LIIFCs") in Changxing County, the systematic risk for LIIFCs' debt is relatively high in the region.

Exhibit 3. Key Economic and Fiscal Indicators of Changxing County

	2020FY	2021FY	2022FY
GRP (RMB billion)	70.2	80.1	85.3
GRP Growth (%)	2.6	9.5	4.2
General Budgetary Revenue (RMB billion)	6.8	8.3	8.2
General Budgetary Expenditure (RMB billion)	9.0	10.2	10.5
Local Government Debt (RMB billion)	16.4	17.7	19.1

Source: Statistics Bureau of Changxing County, CCXAP research

Government's Willingness to Provide Support

Primary platform for land development and infrastructure construction in Changxing County

There are four major LIIFCs supporting the development of Changxing County. Each has a clear positioning under the planning of the local government. As of 30 June 2023, 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 leveling, demolition, residents' relocation, land consolidation, and infrastructure construction of 36.3 square kilometers in Taihu New District and Zhejiang Taihu Tusing Tourism. The land development projects will be transferred to the local government for settlement, and the payments are equal to the project construction cost plus 30% of the investment cost. In 2022, the Company recognized RMB506.3 million in revenue from the land development and consolidation business, accounting for 12.3% of its total revenue. However, land transfer is highly volatile and relies heavily on land market conditions and government planning. As of 31 December 2022, the Company had large inventories of RMB36.7 billion, mainly related to the land development business, which included land reserves and the cost of land development. As of 30 June 2023, the Company had 10 land development and consolidation projects under construction, ensuring 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 acquisition of Changxing Chengxi Construction Development Group Co., Ltd. ("Chengxi

Construction”) in 2021, the scope of the Company’s infrastructure construction business has expanded. The business scope mainly covers the Taihu New District, Taihu Tuying Tourism Resort, and Si’an Town Area. As of 30 June 2023, the Company had sufficient project reserves under construction, with a total investment amount of RMB3.7 billion. The project reserves were mainly road construction and shantytown projects.

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 under construction.

Good track record of receiving government payments

The local government provides strong support to the Company through various forms including project repayments, cash injections, equity transfers, asset injections and financial subsidies. From 2022 to mid-2023, the Company received RMB567.1 million for land development projects and infrastructure construction projects. From 2022 to mid-2023, the local government enhanced the Company’s capital strength by transferring assets and equity shares to the Company, together with a capital injection of RMB2.1 billion. Furthermore, the Company had received government subsidies, with a total amount of RMB635.2 million from 2022 to mid-2023. Given its important role in the development of Changxing County, we expect the local government will continue to support the Company in the foreseeable future.

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 2022, ZCFH had moderate exposure to commercial risk, with commercial business assets accounting for around 20% of its total assets.

ZCFH’s financial investment business mainly consists of equity investment and debt investment. The Company generates revenue from its equity investments primarily through capital gains when it exits through an initial public offering or share sale by its portfolio company. 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, and ZCFH can achieve high returns in the future through the exit of industry investment. As of 30 June 2023, there were 9 funds established and ZCFH act as LPs in all of those funds. 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 30 June 2023, Zhejiang Xinchang Financial Leasing Co., Ltd. (“Xinchang”), a wholly-owned subsidiary of the Company, had provided financial leasing of RMB289.5 million to private enterprises. In 2022, the Company recognized interest income of RMB195.1 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 64.1% of its total revenue in 2022, but recording a low gross profit margin of around 1%. The Company is entrusted by its clients to purchase goods and to make advance payments, resulting in capital occupation for around a month. Furthermore, the Company’s high reliance on its top 5 customers (mid-2023: 82.1%) and suppliers (mid-2023: 66.5%) increased uncertainties in its business. Its clients are 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. Among them, the Company transferred a total of 1,900.00 mu of land management rights to Longmont, with an annual rental income of approximately RMB3.8 million. These businesses were affected by the pandemic and contributed less to the Company's revenue. In 2022, ZCFH received RMB17.7 million from the tourism and leasing business.

Moderate debt management and asset liquidity

ZCFH's total debt maintains 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 RMB38.5 billion at end-2021 to RMB43.0 billion at mid-2023, while the total capitalization ratio (total debt to total capital) increased from 50.8% to 53.4% over the same period because of the transfer of equity shares from the local government. The Company's debt structure has improved, with an increase in long-term bond issuance and a decrease in non-standard borrowing. As of 30 June 2023, long-term debt accounted for 67.6% of total debt. However, the Company still has a relatively large short-term debt burden. As of 30 June 2023, its cash on hand was insufficient to cover its short-term debt of RMB13.9 billion.

ZCFH's asset liquidity is moderate, as its assets are mainly illiquid inventories and other accounts receivables. As of mid-2023, the inventories and other accounts receivables amounted to RMB53.8 billion, accounting for 59.3% of total assets. These inventories mainly consisted of the costs of land development and infrastructure construction; while other receivables were mostly government-related current accounts. As of mid-2023, the Company had a restricted assets amount of RMB5.6 billion, accounting for 14.8% of its net assets.

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 policy banks such as the Agricultural Development Bank of China. As of mid-2023, the Company's total credit facilities were RMB43.1 billion, of which the unutilized amount was about RMB15.0 billion. The Company also has good access to both the onshore and offshore debt markets. From 2022 to mid-2023, the Company and its subsidiaries raised RMB2.0 billion through the onshore debt market, with a coupon rate ranging from 4.6% to 4.75%, and raised USD315.5 million through the offshore debt market. In addition, the Company's exposure to non-standard financing was relatively low at 14.4% as of mid-2023.

Medium 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. As of mid-2023, the Company's external guarantee amounted to RMB9.3 billion, accounting for 24.5% of its net assets. Among them, the Company provided around RMB201.7 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 assumes environmental risks through its infrastructure construction 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 awareness, ZCFH has played a crucial role in the social welfare of Changxing District by being involved in shantytown renovation projects.

In terms of corporate governance, ZCFH's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

ZCFH's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its role as the primary platform for land development and infrastructure construction in Changxing County, thereby mitigating any differences in an expected loss that could result from structural subordination.

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 4. Peer Comparison

	Zhejiang Changxing Financial Holdings Group Co. Ltd..	Changxing Urban Construction Investment Group Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g
Shareholder	Changxing County Finance Bureau. (100%)	State-owned Assets Supervision and Administration Office of Changxing County People's Government. (69.57%); Changxing County Finance Bureau. (26.09%) and Zhejiang Province Financial Development Co., Ltd. (4.35%)
Positioning	Predominant state-owned capital management and industrial investment enterprise in Changxing County	Key infrastructure investment and financing company in Changxing County
Total Asset (RMB billion)	90.8	81.2
Total Equity (RMB billion)	37.8	33.1
Total Revenue (RMB billion)	1.1	1.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 30 June 2023.
Source: CCXAP research

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