

## Credit Opinion

28 October 2024

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

### Analyst Contacts

Christy Liu +852-2860 7130  
Credit Analyst  
[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Amy Chen +852-2860 7140  
Credit Analyst  
[amy\\_chen@ccxap.com](mailto:amy_chen@ccxap.com)

Elle Hu +852-2860 7120  
Executive Director of Credit Ratings  
[elle\\_hu@ccxap.com](mailto: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

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

### Surveillance credit rating report

**CCXAP affirms Zibo Hi-Tech State-Owned Capital Investment Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

### Summary

The BBB<sub>g</sub> 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 strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Zibo High-tech Zone Government's capacity to support reflects its vital role as a national-level 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 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 rating is constrained by the Company's (1) medium exposure to commercial activities, with operating risks of automobile sales business and recovery risks of investment business; and (2) fast debt growth and high leverage ratio 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 remain stable, and the Company will maintain its strategic importance in the development of Zibo High-tech Zone over the next 12 to 18 months.

## Rating Drivers

- Dominant role in local infrastructure construction and land development
- Good track record of receiving government payments
- Medium exposure to commercial activities, with operating risks of automobile sales business and recovery risks of investment business
- Good access to diversified funding channels
- Fast debt growth and high leverage ratio driven by large number of construction projects

## 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 provide support, such as lowering exposure to risky commercial activities, and improving 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 provide support, such as reduced strategic significance, decreased government payments, or increased exposure to commercial activities.

## Key Indicators

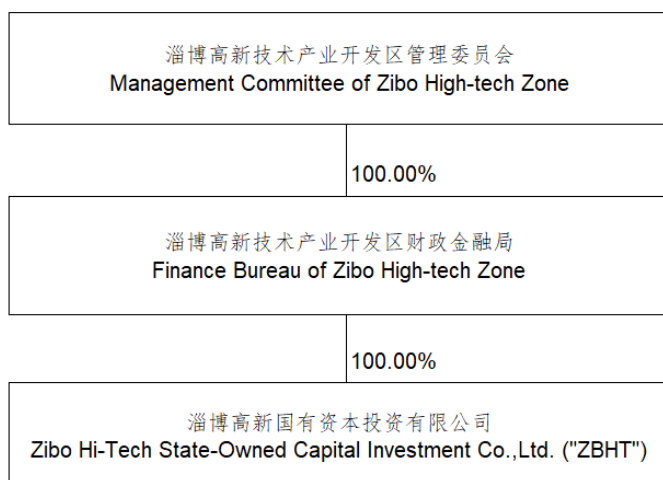
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	47.5	61.4	71.7	72.3
Total Equity (RMB billion)	16.2	16.2	21.8	22.0
Total Revenue (RMB billion)	2.5	3.1	2.4	1.0
Total Debt/Total Capital (%)	55.1	62.1	58.0	58.3

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

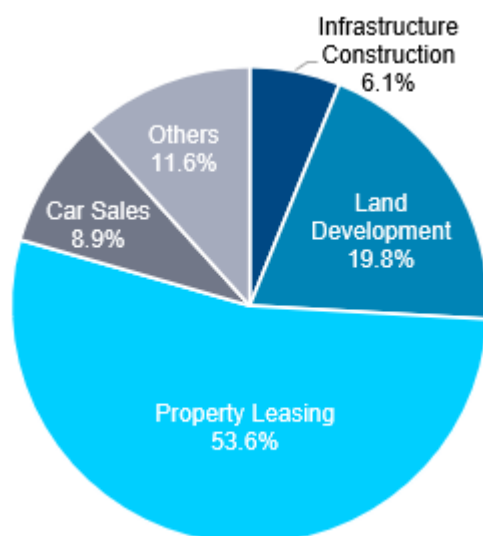
Source: Company data, CCXAP research

## Corporate Profile

Founded in March 2019, ZBHT is the sole development, construction and state-owned asset management entity in Zibo Hi-tech Zone. As of 30 June 2024, it was directly and wholly owned by the Finance Bureau of Zibo High-tech Zone, and the Management Committee of Zibo High-tech Zone remained its ultimate 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 leasing, automobile sales, direct equity investments, and industrial investment fund businesses.

**Exhibit 1. Shareholding chart as of 30 June 2024**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2023**

Source: Company information, CCXAP research

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

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

Shandong Province is the third largest province in terms of gross regional product ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding and 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's GRP recorded a steadily increase to RMB456.2 billion in 2023, ranking the 7<sup>th</sup> by GRP among 16 prefecture-level cities in Shandong Province for the past three years. In the first half of 2024, Zibo City achieved a GRP of RMB238.2 billion, representing a YoY increase of 3.8%. Zibo City has relatively strong fiscal strength and a manageable debt profile. Its general budgetary revenue increased to RMB39.5

billion in 2023 from RMB37.6 billion in 2022. For the past three years, its general budgetary revenue covered around 70% of its general budgetary expenditure, and tax incomes accounted for nearly 67.8% of its general budgetary revenue on average. As of end-2023, Zibo City's government debt balance was RMB122.6 billion, accounting for 26.9% of GRP.

### Exhibit 3. Key economic and fiscal indicators of Zibo City

	2021FY	2022FY	2023FY
GRP (RMB billion)	420.1	440.3	456.2
GRP Growth (%)	9.4	4.7	5.5
General Budgetary Revenue (RMB billion)	36.9	37.6	39.5
General Budgetary Expenditure (RMB billion)	52.3	52.6	55.0
Local Government Debt (RMB billion)	94.6	108.0	122.6

Source: Zibo Municipal Government, CCXAP research

Zibo High-tech Zone is a national-level 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 Provincial Government. Zibo High-tech Zone has developed some core industries, including new energy manufacturing, intelligent microsystems, big health, new materials and financial technology industries. It has demonstrated stable economic growth in recent years. In 2023, the GRP of Zibo High-tech Zone increased by 6.6% YoY to RMB43.7 billion. In the first half of 2024, its GRP was RMB23.8 billion with a YoY growth rate of 8.3%, and its growth rate ranked first among the counties and districts of Zibo City. In addition, Zibo High-tech Zone has a good financial self-sufficiency, with fiscal balance ratios (general budgetary revenue/general budgetary expenditure) above 100% on average over the past three years. It also has a moderate debt profile, with a government debt/GRP ratio of 28.8% as of 31 December 2023.

### Exhibit 4. Key economic and fiscal indicators of the Zibo High-tech Zone

	2021FY	2022FY	2023FY
GRP (RMB billion)	33.7	37.8	43.7
GRP Growth (%)	11.9	12.1	6.6
General Budgetary Revenue (RMB billion)	4.8	5.0	5.7
General Budgetary Expenditure (RMB billion)	4.0	4.4	6.2
Local Government Debt (RMB billion)	8.9	11.4	12.6

Source: Management Committee of Zibo High-tech Zone, 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 sole 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, land development projects and water supply business that are crucial to local economic development and benefit the public welfare and local employment.

The Company and its subsidiaries are engaged in the infrastructure construction business through the entrusted construction model and the government 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 certain markup after examining the projects. Under the government 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. As of 30 June 2024, the Company had 8 key construction projects under construction, including shantytown renovation and river ecological management, with a total investment of RMB9.0 billion and an uninvested amount of RMB2.8 billion.

Additionally, the Company launched the land development business in 2019 and adopted the entrusted construction model. The Company is entrusted to develop and consolidate 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, with an estimated total investment of RMB5.0 billion. The Company is expected to receive project repayments based on the actual cost plus a markup in return, generally 15%. As of 30 June 2024, ZBHT's land consolidation projects had an estimated outstanding investment of RMB3.2 billion, exerting certain capital expenditure pressure on the Company. However, the Company had no land development projects under planning.

ZBHT also provides water supply service to residents and industrial enterprises in Zibo High-tech Zone at prices guided by local government. The Company has a relatively long concession for water supply business with over 20 years, which generated stable income to the Company, demonstrating strong sustainability. With the improvement of the Company's water supply capacity and pipe network length, its water supply service area and scope have increased. As of end-2023, the Company had water pipelines with a total length of 180 kilometers, providing water supply to a population of around 57,000 within a coverage area of 50 square kilometers. The Company also had one water recycling project under planning, with a total investment of RMB997 million. We believe that the replacement cost for the Company's role is high as these public services are essential for the region.

### **Medium exposure to commercial activities, with operating risks of automobile sales business and recovery risks of investment business**

ZBHT's major commercial activities include property leasing, automobile sales, direct equity investments, and industrial investment fund businesses, with relatively high capital expenditure pressure. Most of these commercial activities are policy-driven which are related to public policy businesses. ZBHT's commercial activities are responsible for attracting high-tech companies to settle in Zibo High-tech Zone, which helps support regional economic development. Although the commercial assets account for more than 30% of total assets, we estimate the Company's risk exposure to commercial activities is moderate.

ZBHT has high-quality leasing assets which provides additional recurring income. The Company is responsible for attracting investment in Zibo High-tech Zone and providing preferential rents for settled enterprises. Its projects mainly focus on industrial parks, office buildings, and factories, with a total leasable area of around 2.4 million square meters, most of which have been leased out. As the Company's rental prices were lower than the market prices, which ensured a high and stable occupancy rate for its rental properties. With the continuous completion of newly constructed properties, the Company's rental income grew steadily and reached RMB1.3

billion in 2023. As of 30 June 2024, the Company had numbers of leasing projects under construction, with a total investment of RMB25.5 billion and an outstanding investment of RMB14.2 billion. Large investment need would put certain capital expenditure pressure on the Company.

ZBHT also conducts direct equity investment and fund investment business, which aims to attract investments allocating in Zibo High-tech Zone. 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. ZBHT's direct investment aims to support the development of enterprises in Zibo High-tech Zone, and the Company also invested in some listed companies, such as Polestar Automotive Holding Limited (stock code: PSNY). As of end-2023, the value of the Company's fund investment and direct equity investment had reached RMB3.6 billion and RMB2.0 billion, respectively. As most of the investment projects are in the early stages, the investment returns are relatively low and subject to uncertainties in the operating performance of investees. In 2023, the Company's investment income was RMB16.4 million, mainly obtained from fund dividends and disposal of some equity investment projects. Furthermore, the Company's direct investment also makes it bear certain risk exposure to local private-owned enterprises, which have higher operation risks during market downturn.

ZBHT's automobile sales business is operated by the subsidiary, Shandong Guojin Automobile Manufacturing Co., Ltd. ("Guojin Automobile"), and started to generate income in 2022. Guojin Automobile is the first new energy passenger vehicle company in Shandong Province to obtain independent national qualifications, and has a vehicle manufacturing factory with a designed production capacity of 100,000 pure electric passenger vehicles. The Company mainly adopts procurement-on-demand model, and orders to upstream suppliers and production plans would be made based on the actual sales. However, the Company recorded a negative gross profit margin in 2023 and 2024H1 in this business.

### **Good track record of receiving government payments**

ZBHT has a proven track record of receiving support from the local government in the form of capital injections, asset injections, and subsidies. ZBHT's capital strength continued to grow due to the ongoing capital and asset injections from the local government. For instance, its shareholder, the Finance Bureau of Zibo High-tech Zone, increased ZBHT's paid-in capital by RMB793.5 million in cash in 2023. Additionally, the government also injected some assets to the Company, including investment properties and tourist attraction resources, with a total value of RMB3.0 billion. The Company also received debt exemption of RMB1.9 billion from the local government in 2023.

In addition, ZBHT also has a good track record of receiving government payments, which has provided important support for the Company's capital expenditure and debt repayment. In 2023, ZBHT continued to receive government subsidies with a total amount of around RMB1.7 billion, including interest subsidy and operating subsidy. The Company has established transparent repayment plans for receivables related to construction projects with the local government. In accordance with the terms of the construction agency agreement, the local government continued to make scheduled payments to the Company.

### **Fast debt growth and high leverage ratio driven by large number of construction projects**

ZBHT's debt has exhibited a rapid growth over the past three years, driven by sustained investment in infrastructure construction projects. As of 30 June 2024, ZBHT's total debt increased to RMB30.7 billion from RMB26.6 billion at end-2022. Meanwhile, the total capitalization ratio, calculated by total debt to total capital, saw a decline from 62.1% to 58.3% due to the increase in equity driven by capital and asset injections. As of

30 June 2024, the Company's short-term debt amounted to RMB10.4 billion, accounting for 33.8% of the total debt. The cash to short-term debt ratio was 0.3x, indicating certain short-term repayment pressure. Given the Company's large capital expenditure pressure for its investment and construction projects under construction, we expect its leverage will maintain a relatively high level for the next 12-18 months.

The liquidity profile of ZBHT is moderate, with a significant proportion of low liquid assets. As of 30 June 2024, receivables, inventories, construction in progress, investment properties and investment financial assets accounted for around 75% of the total assets. Furthermore, the Company had relatively large number of assets restricted for funding activities, mainly including cash and investment properties, accounting for approximately 9.1% of the Company's total assets as of the same date.

### **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 large domestic banks. As of 30 June 2024, the Company had total credit facilities of RMB29.4 billion, with an unutilized portion of RMB9.8 billion. The credit facilities were provided by diversified domestic banks, including national joint-stock commercial banks, large state-owned commercial banks, and policy banks, such as Agricultural Development Bank of China.

The Company also has a good track record for fund-raising activities in capital market. For example, from January 2023 to September 2024, the Company raised around RMB2.2 billion from onshore bonds. Furthermore, the Company maintains an active presence in the offshore bond market. From 2023 to September 2024, ZBHT successfully issued 7 tranches of offshore bonds, raising RMB2.4 billion and USD157.2 million. The Company has also effectively managed its exposure to non-standard financing, which decreased to 15.5% of the total debt as of 30 June 2024. Besides, the proportion of non-standard borrowings is expected to further decrease given the Company's diversified financing channels. Considering the Company's important status as the sole platform conducting public policy projects in Zibo High-tech Zone, we expect ZBHT to maintain its 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 conducting infrastructure construction projects. 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. 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.

## Structural Consideration

ZBHT's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic importance in the development of Zibo High-tech Zone, 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 \(July 2022\)](#).

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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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656