

Credit Opinion

6 November 2024

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 improving regional strength of Changxing County, which strengthens the local government's capacity to support the Company. It also reflects the Company's important position in regional development and industrial investment in Changxing County.

The BBB_g 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 Changxing County's ranking of 57th among the Top 100 Economic Counties in China in 2024, 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) important position in land development and infrastructure construction of Changxing County; (2) good track record of receiving government payments; and (3) good access to various funding sources.

However, the rating is constrained by the Company's (1) medium commercial business risk; (2) steady debt growth and moderate 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

- Important position in land development and infrastructure construction of Changxing County
- Good track record of receiving government payments
- Medium commercial business risk
- Steady debt growth and moderate asset liquidity
- Good access to various 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; and (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

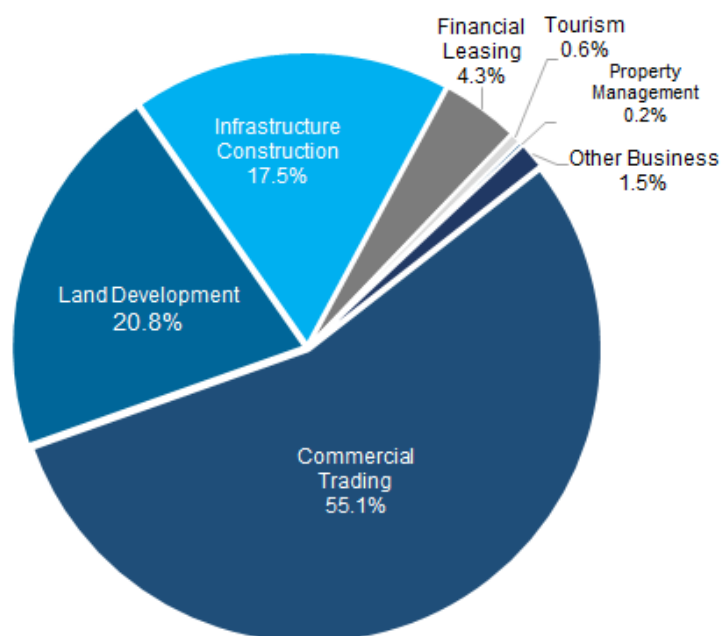
	2021FY (restated)	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	82.6	83.9	85.4	87.4
Total Equity (RMB billion)	37.2	37.0	34.7	35.1
Total Revenue (RMB billion)	4.3	4.1	2.9	0.7
Total Debt/Total Capital (%)	50.8	50.0	55.5	56.0

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

Source: Company data, 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 31 March 2024, the Company was wholly owned and controlled by the Changxing Finance Bureau.

Exhibit 1. Revenue structure in 2023

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. Huzhou City has four leading industries including information technology, high-end equipment, health and tourism. It has achieved a significant increase in gross regional product ("GRP") over the past three years. In 2023, Huzhou City recorded a GRP of RMB401.5 billion, increasing by 5.8% year-over-year ("YoY"). Due to the economic recovery and industry growth, Huzhou Municipal Government's general budgetary revenue increased from RMB38.7 billion in 2022 to RMB41.1 billion in 2023. It also has good fiscal stability, with tax income accounting for around 90% of general budgetary revenue for the past three years. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 67.6% in 2023. However, Huzhou Municipal Government's debt burden was large with an outstanding direct government debt of RMB136.4 billion at end-2023, accounting for 34.0% of its GRP and 98.6% of its total fiscal revenue.

Exhibit 2. Key Economic and Fiscal Indicators of Huzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	364.5	385.0	401.5
GRP Growth (%)	9.5	3.3	5.8
General Budgetary Revenue (RMB billion)	41.4	38.7	41.1
General Budgetary Expenditure (RMB billion)	52.4	60.2	60.7
Local Government Debt (RMB billion)	102.3	118.9	136.4

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 57th among the Top 100 Economic Counties in China in 2024. Changxing County has steadily cultivated three pillar industries, including non-metallic mineral products, modern textiles, and characteristic electromechanical industries, as well as three strategic emerging industries, namely new energy vehicles, high-end equipment manufacturing, and information technology. Good industry structure and economic environment create the environment for listed companies' growth and industrial investment. As of 31 December 2023, there were 11 listed companies in Changxing County with a total IPO financing amount of RMB23.0 billion. In 2023, Changxing County's GRP increased by 6.5% YoY to RMB89.4 billion, ranking 2rd among all prefecture-level cities in Huzhou City. We believe that the sustainable economic development of Changxing County provides a sound external environment for the Company's business development. Benefited from economic recovery and industrial development, the Changxing County Government's general budgetary revenue increased from RMB8.2 billion in 2022 to RMB8.7 billion in 2023, and tax revenue accounted for 86.2% of its general budgetary revenue in 2023. Changxing County had a relatively large debt burden. As of end-2023, Changxing County Government's outstanding direct debt amounted to RMB20.2 billion, accounting for about 22.6% of its GRP and 114.8% 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. In the first half of 2024, Changxing County's economy grew steadily, achieving a regional GDP of RMB72.1 billion, a year-on-year increase of 5.7%.

Exhibit 3. Key Economic and Fiscal Indicators of Changxing County

	2021FY	2022FY	2023FY
GRP (RMB billion)	80.1	85.3	89.4
GRP Growth (%)	9.5	4.2	6.5
General Budgetary Revenue (RMB billion)	8.3	8.2	8.7
General Budgetary Expenditure (RMB billion)	10.2	10.5	12.0
Local Government Debt (RMB billion)	17.7	19.1	20.2

Source: Statistics Bureau of Changxing County, CCXAP research

Government's Willingness to Provide Support**Important position in land development and infrastructure construction of 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 an important entity for urban infrastructure development and state-owned asset operation 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 holds a dominant regional position in the land development and consolidation business in Changxing County. Authorized by the local government and the management committee, the Company undertook land leveling, demolition, residents' relocation, land consolidation, and infrastructure construction covering 36.3 square kilometers in Taihu New District and Zhejiang Taihu Tusing Tourism. The land development and consolidation projects will be handed over to the local government for finalization, with payments amounting to the project construction cost plus an additional 30% of the investment cost. In 2023, the Company recognized RMB591.8 million repayments from the land development and consolidation business. As of 31 March 2024, the Company had 6 land development and consolidation projects under construction with invested amount of RMB14.1 billion and there are no projects under planning, indicating low business sustainability and uncertain future. However, land development and consolidation business is highly susceptible to government planning and regional land market conditions, which may exert uncertainty to the Company.

ZCFH is also a primary investment platform responsible for infrastructure construction in Changxing County. Its business scope mainly covers the Taihu New District and Taihu Tusing Tourism Resort Area. The Company signs construction agreements with entrusting parties, usually with a certain degree of markup. The Company undertakes infrastructure construction projects including road construction and resettlement housing project. As of 31 March 2024, the Company had 4 projects under construction, with a total investment amount of RMB4.0 billion and uninvested amount of RMB279.9 million. However, there are no projects under planning, indicating low business sustainability.

Good track record of receiving government payments

The local government provides strong support to the Company through various forms including project repayments, cash injections, asset injections and financial subsidies. From January 2023 to March 2024, the Company received RMB1.1 billion for land development projects and infrastructure construction projects. In 2023, the Company received asset injections including reservoirs and the Talent Tower, increasing the Company's Capital Reserve by totaling RMB297 million. Furthermore, the Company had received government subsidies, with a total amount of RMB860.3 million from January 2023 to March 2024. In 2023, the Company also has received financial interest subsidies of RMB640 million. 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 exposure to commercial activities

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 2023, 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 initial public offering or share sale by its portfolio company. The Company participated in the establishment of several private equity funds using its own funds to align with the industrial supportive policies in Changxing County. As of the end of 2023, the Company has established a parent fund and over 10 subsidiary funds, with a total fund scale of approximately RMB1 billion. In 2023, the Company increased its equity investments primarily in Changxing Xinyin Jiasheng Equity Investment Partnership Enterprise and Changxing Weixin Equity Investment Partnership Enterprise. The Company's equity investment funds are mainly used for attracting investment for industrial support funds. Its industrial fund investment business maintains a leading position among regional state-owned

enterprises, and ZCFH can achieve high returns in the future through the exit of industry investment. In 2023, the Company recognized investment income of RMB0.2 billion.

In terms of debt investments, the Company primarily increased its investment of Zhejiang Genesis Machinery Co., Ltd in 2023. The Company had accounts receivable for finance leases totally amounted to RMB359.3 million as of the end of 2023. Regarding the guarantee business, as of the end of 2023, the Company has guarantee balance of RMB198 million, of which RMB165 million being guarantees for private-owned enterprises.

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 55.1% of its total revenue in 2023, but recording a low gross profit margin of around 1%. However, the Company's trading income has decreased since 2023, mainly due to the Company reducing the scale of low-priced trade. 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 trading business showed a relatively high concentration risk as its top 5 suppliers and customers accounted for around 58.8% and 71.6% of its purchasing and sales amount, respectively, increasing uncertainties in this business.

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 2023, ZCFH received RMB17.6 million from the tourism and leasing business.

Steady debt growth and moderate asset liquidity

ZCFH's total debt has shown a steady growth. The Company's total debt increased from RMB37.0 billion at end-2022 to RMB44.2 billion at 2024Q1, while the total capitalization ratio (total debt to total capital) increased from 50.0% to 56.0%. However, the Company still has a relatively large short-term debt burden. Its short-term debt accounted for about 35.6% of its total debt and its cash to short-term debt ratio was 0.5x at end-2024Q1.

ZCFH's asset liquidity is moderate which may undermine the Company's financial flexibility. As of 31 March 2024, its assets were primarily composed of inventories and receivables, totally accounting for about 62% of total assets. Inventories are mainly development costs for infrastructure construction and land development projects, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. The Company's equity investments account for 18% of total assets, with modest overall investment returns, indicating average asset quality. As of 31 March 2024, the Company had a restricted assets amount of RMB3.1 billion, accounting for 8.8% of its net assets.

Good access to various funding sources

ZCFH's diversified funding sources, which include bank loans and bond issuances, may help alleviate its liquidity pressure. The Company maintains good relationships with large domestic banks such as the Agricultural Development Bank of China and Industrial and Commercial Bank of China. As of 31 March 2024, the Company had total credit facilities of RMB43.1 billion, with the available portion being RMB13.5 billion, indicating sufficient standby liquidity. The Company also has good access to both the onshore and offshore debt markets. From 2023 to September 2024, the Company and its subsidiaries raised RMB9.1 billion through the onshore debt

market, with an average coupon rate of 3.6%, and raised USD160 million through the offshore debt market. In addition, the Company's exposure to non-standard financing was moderate at 13.8% as of 31 March 2024.

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 31 March 2024, the Company's external guarantee amounted to RMB7.4 billion, accounting for 21.1% of its net assets. The external guarantees are mainly provided to the state-owned enterprises ("SOEs") in Changxing County. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

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)	85.4	80.3
Total Equity (RMB billion)	34.7	32.6
Total Revenue (RMB billion)	2.9	3.4
Total Debt/Total Capital (%)	55.5	55.6

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company information, CCXAP research

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