# CCXAP assigns first-time long-term credit rating of $BBB_g$- to Shandong Zhengfang High-Tech Industrial Holding Group Co., Ltd., with stable outlook.

Hong Kong, 15 October 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time long-term credit rating of $BBB_g$- to Shandong Zhengfang High-Tech Industrial Holding Group Co., Ltd. ("ZFIH" or the "Company"), with stable outlook.

The $BBB_g$- long-term credit rating of ZFIH reflects the Company's (1) strong regional competitiveness in steam and heat supply, park operation and human resources service in Zoucheng City, especially in Zoucheng Economic Development Zone ("Zoucheng EDZ"); and (2) manageable financial leverage supported by capital injections. However, the rating is constrained by the Company's (1) low yield on assets resulting from large projects under construction; and (2) weak stand-alone credit metrics.

The rating also reflects a high likelihood of support from its parent, Shandong Zhengfang Holding Group Co., Ltd. ("SDZF"), given its strong parent-subsidiary linkage with SDZF and good track record of receiving support. It also reflects a likelihood of receiving support from Zoucheng City Government, given its ultimate control by the Finance Bureau of Zoucheng City and track record of receiving support.

## Corporate Profile

Established in December 2019, ZFIH is a local state-owned enterprise mainly operating in Zoucheng City, a country-level city in Jining City, Shandong Province. In December 2023, the parent company, SDZF, transferred and integrated the equity of several subsidiaries into ZFIH, increasing the total assets of the Company to RMB3.4 billion. In February 2024, the shareholding of ZFIH changed from 100% held by SDZF to 51% and 49% held by SDZF and the Finance Bureau of Zoucheng City respectively. SDZF is a key local infrastructure investment and financing company ("LIIFC") in Zoucheng City and is mainly responsible for infrastructure construction in the Zoucheng EDZ. As of 30 June 2024, the Finance Bureau of Zoucheng City is the ultimate controller of the Company. The Company's business scope mainly includes industrial steam and heating supply, human resources services, industrial park operation, driver training and sales of cemeteries.

## Rating Rationale

### Credit Strengths

**Strong regional competitiveness in industrial steam and heat supply, park operation and human resource services in Zoucheng EDZ.** ZFIH is the main local state-owned enterprise engaged in market-driven businesses, including industrial steam and heat supply, human resources services and industrial park operation in Zoucheng EDZ. Some of these businesses are essential to investment attraction and economic promotion in the region. On the back of the local government and its parent company, the Company has strong regional competitiveness and stable market shares in those sectors.

**Manageable financial leverage supported by increased capital strength.** Due to the expansion of its business scope and large capital expenditure on its construction development projects, ZFIH's total debt increased rapidly from 2022 onwards. However, the ongoing capital injection from the parent company keeps the capitalization leverage ratio, measured by total debt to total capital, at a manageable level in recent years. The Company expects capital injections in the form of assets from the local government, but the implementation period may be long.

**High likelihood of support from the parent company and the Zoucheng City Government.** SDZF is one of the key local LIIFCs ultimately controlled by the Finance Bureau of Zoucheng City in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng EDZ. ZFIH is one of the key subsidiaries of SDZF, which contributes most of the commercial business revenue stream for SDZF. SDZF has transferred shares of more than 10 subsidiary companies to ZFIH since 2023, significantly enhancing the Company's capital strength and broadening its business scope. Meanwhile, the Company also obtained funding support from its parent company in terms of bank loans.

### Credit Challenges

**Low yield on assets resulting from large projects under construction.** ZFIH's yield on assets improved as EBIT increased, however, it was still at a relatively low level. The low return on assets was mainly caused by ZFIH having large projects under construction that did not generate revenue. As of 30 June 2024, the key projects under construction include industrial steam and heat projects, industrial park projects and some self-operated projects. The key self-operated projects include a retirement center and a water transfer project, which will be realized through rent or operation.

**Weak credit metrics given its weak profitability.** ZFIH's stand-alone debt servicing metrics are weak given its moderate profitability. Considering its business expansion, its debt scale may further increase in the future. As of 30 June 2024, ZFIH's debt consisted of bank borrowing and financial leasing. Its access to financing was moderate as its financing channels concentrated on regional banks such as city commercial banks, which may have higher costs and higher regional concentration risks.

## Rating Outlook

The stable outlook on ZFHI's rating reflects our expectation that the Company will maintain its regional competitiveness and importance in in market-driven activities Zoucheng City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from its parent company and the local government.

**What could upgrade the rating?**

The rating could be upgraded if (1) the likelihood of government or parental support for the Company improves; or (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and asset profitability.

**What could downgrade the rating?**

The rating could be downgraded if (1) the likelihood of government or parental support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as a deterioration in financial leverage or liquidity position.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for General Corporate (April 2019).

## Regulatory Disclosures

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