

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

Hong Kong, 28 October 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Zibo Hi-Tech State-Owned Capital Investment Co., Ltd. (“ZBHT” or the “Company”) at BBB<sub>g</sub>, with stable outlook. At the same time, CCXAP has affirmed ZBHT’s BBB<sub>g</sub> senior unsecured debt rating.

The BBB<sub>g</sub> long-term credit rating of ZBHT 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.

### **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.

### **Rating Rationale**

#### **Credit Strengths**

**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.

**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 subsidiaries. ZBHT's capital strength continued to grow due to the ongoing capital and asset injections from the local government. 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.

**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. 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.

### Credit Challenges

**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.

**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. 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.

### Rating Outlook

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.

#### 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.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

### **Regulatory Disclosures**

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