

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>+ to Zaozhuang Infrastructure Investment Development Group Co., Ltd., with stable outlook.**

Hong Kong, 16 January, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>+ to Zaozhuang Infrastructure Investment Development Group Co., Ltd. (“ZZII” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of ZZII reflects Zaozhuang Municipal Government’s (1) very strong capacity to support, and (2) very high willingness to support based on our assessment of the Company’s characteristics. Our assessment of Zaozhuang Municipal Government’s capacity to provide support reflects its important role as modern manufacturing base and emerging technological innovation base in Shandong Province, with increasing economic strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in supporting local economic development; (2) important responsibilities in undertaking water supply business; and (3) solid track record of receiving government supports. However, the rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt level driven; and (3) medium exposure to contingent liabilities.

### **Corporate Profile**

Founded in November 2016, ZZII is the pivotal infrastructure construction company in Zaozhuang City and plays an important role in the urban development and operation of Zaozhuang City. The Company mainly engages in infrastructure construction, land quota development and sales, and water supply business. It also engages in commercial businesses such self-operated construction, and building material trading. As of 30 June 2023, the Company was under the control of the Finance Bureau of Zaozhuang City (“Zaozhuang Finance Bureau”), which directly held 86.25% of the Company’s share. Moreover, Shandong Caixin Asset Operation Co., Ltd. and Zaozhuang Jinsheng Cultural Industry Development Co., Ltd. (“Jinsheng”) directly held 9.58% and 4.17% of the Company’s shares, respectively.

### **Rating Rationale**

#### **Credit Strengths**

**Important role in supporting local economic development.** As the infrastructure construction company in Zaozhuang City, ZZII’s business plays an important role in supporting the development of Zaozhuang City. The Company mainly undertakes various key infrastructure construction projects and land quota development and sales that are crucial to local economic development and benefit the general public and local employment. The infrastructure construction projects in the pipelines will ensure the sustainability of the business, but also bring certain capital expenditure pressure to the Company.

**Important responsibilities in undertaking water supply business.** ZZII also provides water supply service in Xuecheng District at prices guided by the local government. We believe that the replacement cost for the Company's role is high as ZZII undertakes essential public projects for the region.

**Solid track record of receiving government support.** ZZII has a proven track record of receiving support from the local government over the years. We believe that given ZZII's important position and its close relationship with the local government, the Company is expected to receive ongoing government support as needed in the next 12-18 months.

### Credit Challenges

**Medium exposure to commercial activities.** ZZII's major commercial businesses mainly include self-operation projects and building materials trading, generating supplementary income to the Company. However, they may also pose higher operational and business risks. The Company's commercial assets account for around 25% of total assets by the end of June 2023, we estimate the Company's risk exposure to commercial business is moderate.

**Increasing debt level driven.** ZZII's total debt has been growing rapidly over the past three years driven by its large number of construction projects. Given the Company's large capital expenditure pressure for its infrastructure construction and land quota development projects under construction and planning, we expect the Company's debt level would further increase for the next 12-18 months.

**Medium exposure to contingent liabilities.** The Company bears moderate contingent risk resulting from relatively large external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company's external guarantees amounted to RMB3.5 billion, accounting for 28.6% of its net assets. All the external guarantees were provided to local state-owned enterprises. In case a credit event occurs in the region, it may lead to large-scale cross-effects.

### Rating Outlook

The stable outlook on ZZII's rating reflects our expectation that the Zaozhuang Municipal Government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Zaozhuang City over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Zaozhuang Municipal 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 provide support, such as lower exposure to contingent liabilities.

#### What could downgrade the rating?



The rating could be downgraded if (1) Zaozhuang Municipal 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 decreased government payments, or deteriorated debt management.

### **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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