

CCXAP assigns BBB_g to Shandong Zhengfang Holding Group Co., Ltd.'s proposed CNY bonds

Hong Kong, 25 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a senior unsecured debt rating of BBB_g to the proposed CNY bonds to be issued by Shandong Zhengfang Holding Group Co., Ltd. (“SDZF” or the “Company”) (BBB_g/stable).

The bonds constitute direct, unsubordinated, unconditional, and unsecured obligations of SDZF, which shall at all times rank pari passu with all the Company’s other present and future unsecured and unsubordinated obligations. The Company intends to use the proceeds for projects development and working capital replenishment.

Corporate Profile

Founded in 2010, SDZF is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng Economic Development Zone (“Zoucheng EDZ”). The Company engages in diversified businesses, including infrastructure construction, bus operation, gas filling, industrial park operation, trading, and electricity and heat sales. SDZF was ultimately controlled by the Finance Bureau of Zoucheng City. As of 30 June 2023, the Finance Bureau of Zoucheng City held 76.51% of the Company’s shares, and Agricultural Development Infrastructure Fund Co., Ltd. held the remaining 23.49% of the shares.

Rating Rationale

The rating of the senior unsecured bonds is equal to SDZF’s long-term credit rating. We believe that government support will flow through the Company given its important role in the industrial development of Zoucheng City, thereby mitigating any differences in an expected loss that could result from structural subordination.

The BBB_g long-term credit rating of SDZF reflects Zoucheng City Government’s strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of the Zoucheng City Government’s capacity to support reflects Zoucheng City’s relatively good economic strength and fiscal metrics, as one of the Top 100 counties in China and the top counties by gross regional production (“GRP”) in Jining City.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in the infrastructure construction of Zoucheng City, especially the Zoucheng EDZ; (2) increasing importance in the provision of local public utility services; and (3) solid track record of government support. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt burden with large investment needs; and (3) large share of non-standard financing and unstable financing structure.

Rating Outlook

The stable outlook on SDZF's rating reflects our expectation that Zoucheng City Government's capacity to provide support will be stable, and the Company's characteristics such as its important role in the industrial development of Zoucheng City will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Zoucheng City 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 significantly improved refinancing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the Zoucheng City 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 or deteriorated refinancing ability.

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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http://www.ccxap.com/en/rating_services/category/6/

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