

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Zibo Zichuan Finance Holding Co., Ltd., with stable outlook.**

Hong Kong, 2 February, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Zibo Zichuan Finance Holding Co., Ltd. (“ZCFH” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of ZCFH reflects Zichuan District 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 the local government’s capacity to provide support reflects Zichuan District’s comprehensive strength, with ongoing economic growth and improving fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in regional development of the Zichuan District, primarily responsible for the development of industrial parks and supporting infrastructure; and (2) solid track record of receiving government supports. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; and (2) fast debt growth driven by continuous investment in infrastructure projects and industrial parks.

### **Corporate Profile**

Founded in July 2017, ZCFH is one of the two pivotal local infrastructure investment and financing companies (“LIIFCs”) in Zichuan District. As an important urban infrastructure investment and state-owned capital investment and operation entity in Zichuan District, ZCFH is responsible for public infrastructure and welfare projects, including infrastructure construction, municipal engineering, and environmental services. It also has commercial activities, including industrial park development and operation, financial investment, leasing, limestone trading services. As of 30 June 2023, it was directly and wholly owned by the Zichuan State-owned Assets Supervision and Administration Bureau (“Zichuan SASAB”).

### **Rating Rationale**

#### **Credit Strengths**

**Important role in regional development of the Zichuan District, primarily responsible for the development of industrial parks and supporting infrastructure.** As an important urban infrastructure investment and state-owned capital investment and operation entity in Zichuan District, ZCFH has a clear strategic role in regional development, especially in the development of industrial parks and supporting infrastructure. The Company is commissioned to carry out various key infrastructure construction projects, such as industrial parks, roads, ecological restoration construction and mine rehabilitation, which are crucial to local economic development and benefit the general public and local employment. We believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Solid track record of receiving government support.** As a core LIIFC in the Zichuan District, ZCFH has a proven track record of receiving support from the local government in terms of capital injections, asset injections, equity transfer, and subsidies, to support its businesses and operations. We expect that, as the pivotal state-owned enterprise in Zichuan District, the Company plays an irreplaceable role in the development and operation of the region, and will

### **Credit Challenges**

**Moderate exposure to commercial business activities.** Apart from the public policy activities, ZCFH also participates in commercial activities such as industrial park construction and operation, financial investment, leasing, and limestone trading services. Although the Company's commercial assets account for more than 30% of total assets as of the end of June 2023, we estimate the Company's risk exposure to commercial business is moderate due to the majority of its commercial activities is partially policy driven.

**Fast debt driven by continuous investment in infrastructure projects and industrial parks.** Due to the large capital expenditure in infrastructure projects and industrial parks over the past few years, its total debt has seen a large increase. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months. Meanwhile, The Company's asset liquidity is moderate.

### **Rating Outlook**

The stable outlook on ZCFH's rating reflects our expectation that the Zichuan District Government's capacity to provide support will be stable, and the Company's important role in regional development of Zichuan District will remain unchanged over the next 12 to 18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) Zichuan District 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 materially lowering exposure to risky commercial activities, and improving debt management and financing ability.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) Zichuan District 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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