

CCXAP upgrades Heze Finance Investment Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 8 February, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded Heze Finance Investment Group Co., Ltd.’s (“HZFI” or the “Company”) long-term credit rating to BBB_g+ from BBB_g, reflecting the improving comprehensive strength of Heze City. The Heze Municipal Government continues to receive large number of transfer payments from the Shandong Provincial Government, demonstrating its importance in Shandong Province.

The BBB_g+ long-term credit rating of HZFI reflects Heze Municipal Government’s (1) very strong capacity to provide support based on our assessment of Heze City; and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Heze Municipal Government’s capacity to support reflects Heze City’s increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government’s very high willingness to provide support, based on the Company’s (1) strategic role in investing and constructing key municipal projects and the economic and social development of Heze City; and (2) good track record of receiving government supports. However, the rating is constrained by the Company’s (1) high exposure to commercial activities; (2) increasing debt burden driven by construction projects; and (3) medium contingent risks resulting from external guarantees.

Corporate Profile

Founded in March 1994, HZFI is an important local infrastructure investment and financing company (“LIIFC”) in Heze City, which is one of the leading entities in the development blueprint of Heze Municipal Government. The Company plays a strong strategic role in the social, economic, and urban development of Heze City. Specifically, HZFI is responsible for major public policy projects, including infrastructure construction, land development and consolidation, policy-oriented grain storage, and public transportation. It also engages in commercial activities such as sales of housing, sales of commercial food and edible oil, cultural tourism, as well as industrial investment. As of 30 June 2023, the State-owned Assets Supervision and Administration Commission of Heze Municipal Government (“Heze SASAC”) had 100% ownership of HZFI.

Rating Rationale

Credit Strengths

Strategic role in investing and constructing key municipal projects and the economic and social development of Heze City. HZFI is one of the most important LIIFCs in Heze City that undertakes city development projects and provision of public services. Moreover, the Company is positioned as a pivotal entity in state-owned capital operation and the key municipal project investment and financing platform of Heze City. HZFI focuses on the key infrastructure construction projects, policy-oriented grain storage, public transportation, as well as land

development and consolidation, which are crucial to the economic and social development of Heze City. In addition, the Company has performed well in undertaking major livelihood projects in Heze City.

Good track record of receiving government supports. The Company has a good track record of receiving support from the local government in terms of subsidies, capital injection, special funds, and equity transfers. The local government also provided special bond to support the Company's ongoing construction and operation. Considering HZFI's strategic role in Heze City and close relationship with Heze Municipal Government, we expect the local government will continue to enlarge the Company's asset size through cash and asset injection. We also believe that the Company will receive subsidies and special bonds from the local government in a timely manner.

Credit Challenges

High exposure to commercial activities. HZFI engages in various commercial activities mainly including sales of housing, sales of commercial food and edible oil, cultural tourism, as well as industrial investment. HZFI's commercial assets accounted for large proportion of total assets, in our estimation, some of the commercial activities are subject to volatile market and counterparties risk. Despite some of these activities that are more policy-driven and related to its public policy businesses, it is more difficult for the government to provide direct support to the Company if the commercial activities continue to expand.

Increasing debt burden driven by construction projects. With the continuous financing for construction projects, HZFI shows fast debt growth. The Company has also maintained increasing debt leverage over the past three years. HZFI demonstrated certain short-term debt pressure but gradually improved its debt structure. Driven by large capital expenditure needs of its construction projects, we expect the Company's total debt to continue to grow over the next 12-18 months but maintain a reasonable debt leverage.

Rating Outlook

The stable outlook on HZFI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic role in the economic and social development of Heze City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Heze Municipal Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to support, such as lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Heze Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local



government's willingness to support, such as reduced strategic significance, 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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