

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

Hong Kong, 8 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>+ to Jinan Shizhong Finance Investment Group Co., Ltd. (“SZFI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of SZFI reflects Shizhong District Government’s (1) very strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shizhong District Government’s capacity to provide support reflects Shizhong District’s important position as the political, economic, cultural, and financial center of Jinan City, and its gross regional product (“GRP”) has ranked top three among the counties or districts in Jinan City for years.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant position as the largest local infrastructure investment and financing companies (“LIIFC”) in Shizhong District; and (2) good track record of receiving government supports. However, the rating is constrained by its (1) medium exposure to commercial activities, with a certain portion in property development; (2) increasing debt burden and moderate asset liquidity; and (3) relatively high exposure to no-standard financing.

### **Corporate Profile**

Founded in June 1992, SZFI is the most important and largest LIIFC in terms of total assets in Shizhong District, and directly and indirectly controls the major LIIFCs in Shizhong District. The Company is mainly responsible for land acquisition and demolition, infrastructure construction, and resettlement housing construction in Shizhong District. The Company is also involved in commercial businesses including sales of houses, property leasing, trading, financial investment as well as financial services. As of 30 September 2023, the Company was directly and wholly owned by the Jinan City Shizhong District Government Project Funding Service Center, and Shizhong District Government was the actual controller.

### **Rating Rationale**

#### **Credit Strengths**

**Dominant position as the largest LIIFC in Shizhong District.** As the most important and largest LIIFC in terms of total assets in Shizhong District, SZFI is an exclusive entity for primary land development projects. The Company is also responsible for related infrastructure construction and resettlement housing projects on the consolidated land parcels, improving the public welfare of the residents of Shizhong District.

**Good track record of receiving government support.** As the key entity in land acquisition and demolition and relevant infrastructure construction in Shizhong District, SZFI has a good track record of receiving government supports. The Company has received project payments, operating subsidies, and cash injections from the local government to support its business

operations. Given SZFI's important position and large scale of policy projects under construction and planning, we expect local government would continuous to provide support to the Company over the next 12 to 18 months. However, the strength of government support in the future would be affected by the performance of land market in Jinan City.

### Credit Challenges

**Medium exposure to commercial activities, with a certain portion in property development.** Apart from public activities, SZFI is also involved in a diversified range of commercial activities that contribute part of its revenue, including sales of houses, property leasing, trading, financial investment as well as financial services. We consider SZFI's commercial business exposure to be medium, with a certain portion in property development. Moreover, these commercial activities may also entail higher operational and business risks than public policy activities. At the same time, large amount of self-operated projects will exert capital expenditure pressure on the Company.

**Increasing debt burden and moderate asset liquidity.** SZFI's debt had increased rapidly over the past three years due to continuous investment in public projects and self-construction projects. We expect the Company to rely on external financing for its land acquisition and demolition, infrastructure construction and self-operated projects, and its total debt burden is expected to increase further in the next 12-18 months. In addition, the liquidity of SZFI's assets was relatively weak. The relatively low asset liquidity may undermine the Company's financial flexibility.

**Relatively high exposure to no-standard financing.** SZFI has different financing channels such as bank loans, onshore and offshore bond issuance, and non-standard financing. However, the Company has a relatively high exposure to non-standard financing, which accounts for more than 30% of its total debt. The main non-standing financing products are financial leasing and trust. Non-standard financing products generally has higher financing costs and short tenor, which could increase the Company's refinancing pressure.

### Rating Outlook

The stable outlook on SZFI's rating reflects our expectation that the local government's capacity to provide support will be stable, and that the Company will maintain its important position in the development of Shizhong District over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Shizhong District 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 lowers the exposure to risky commercial activities, and improved debt management.

#### What could downgrade the rating?



The rating could be downgraded if (1) Shizhong 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, or weakened government support.

### **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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