

CCXAP affirms Zouping Financial Development Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 30 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Zouping Financial Development Group Co., Ltd.’s (“ZPFD” or the “Company”) long-term credit rating at BBB_g, with stable outlook.

The BBB_g long-term credit rating of ZPFD reflects Zouping City Government’s (1) strong capacity to provide support based on our assessment of Zouping City; and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Zouping City Government’s capacity to support reflects its status as one of the top 100 counties in China, with moderate economic strength and fiscal profile.

The rating also reflects the local government’s very high willingness to provide support, based on the Company’s (1) essential role in infrastructure construction and operation of Zouping City; (2) dominant position in providing public services; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt level to support investment in public policy projects; and (3) fair access to funding.

Corporate Profile

Founded in July 2019, ZPFD is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Zouping City. After consolidation of the local state-owned enterprises in 2022, the Company has become the most important LIIFC engaged in infrastructure construction, operation of land resources, and provision of essential public services such as heat supply and water supply, in accordance with the economic development strategy and social development requirements of Zouping City. The Company also expands to commercial activities such as trading, leasing, property development, as well as industrial investment including equity investment and fund investment. As of 31 December 2023, the Company was directly and wholly owned by the State-owned Assets Center of Zouping City and Zouping City Government was the ultimate controller.

Rating Rationale

Credit Strengths

Essential role in infrastructure construction and operation of Zouping City. ZPFD acts as the essential LIIFC in Zouping City and is delegated by the local government to undertake local infrastructure construction, state-owned asset operation, as well as the operation of land resources, focusing on implementing the strategic blueprint for economic and district development in Zouping City. In our view, ZPFD’s important role in supporting local development of Zouping City is not easily replaced by other LIIFCs.

Dominant position in providing public services. ZPFD provides essential public services in Zouping City consisting of heat supply and water supply. The Company’s subsidiary is the sole

heat supplier in the main urban area of Zouping City. ZPFD is also responsible for the production and supply of tap water, covering the major areas such as Changshan, Gaoxin, Jiaoqiao, Handian, Haosheng, Sunzhen, Jiuhu, Mingji, and part of Weiqiao. This business demonstrates a strong public welfare nature and ensures a stable water supply in these areas.

Good track record of receiving government support. ZPFD has in the past received significant support from the local government in the form of project payments, capital contributions, equity transfers, cash and asset injections, and fiscal subsidies to support its investments and operation of its businesses. In light of ZPFD's key and strategic role in promoting the local development of Zouping City, we expect the Company to receive strong support from the local government when necessary.

Credit Challenges

Medium exposure to commercial activities. ZPFD actively explores new commercial business opportunities to diversify its sources of income. These commercial activities mainly include trading, leasing, property development, as well as industrial investment. Given the proportion of commercial assets to total assets was around 30%, we estimate the ZPFD's exposure to commercial activities is medium.

Increasing debt level to support investment in public policy projects. ZPFD's total debt recorded rapid growth along with the ongoing investment in several infrastructure construction projects. Considering that the Company's large scale of key projects under construction and planning, the Company's total debt burden is expected to further increase over the next 12-18 months. In addition, the liquidity of the Company's assets was relatively weak. The low asset liquidity may undermine the Company's financial flexibility.

Fair access to funding. ZPFD has access to various funding including bank borrowing and direct financing. Leveraging the Company's state-owned background and strategic importance to the local development in Zouping City, it is able to secure various sources of financing with competitive financing costs. Bank loans account for majority of the Company's total debt. However, the Company had certain exposure to non-standard financing products such as finance leases and trusts with higher financing costs, which accounted for around 33.2% of total debt as of 30 June 2023.

Rating Outlook

The stable outlook on ZPFD's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its pivotal role in infrastructure construction and operation of Zouping City, will remain largely unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zouping City Government's capacity to support the Company strengthens; and (2) the Company's characteristics change in a way that strengthens



the local government's willingness to support, such as improved debt management or diversifying funding channels.

What could downgrade the rating?

The rating could be downgraded if (1) Zouping City 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 decrease in importance of its policy role, increasing exposure to commercial activities, or material decrease in government payments.

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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Allen Lin

Credit Analyst

+852-2860 7128

allen_lin@ccxap.com

Elle Hu



Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656