

## **CCXAP affirms Heze Investment Development Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 27 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Heze Investment Development Group Co., Ltd. (“HZID” or the “Company”) at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of HZID reflects the Heze Municipal 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 Heze Municipal Government’s capacity to provide support reflects Heze City’s sound economic fundamentals, increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) strong market position as the largest investment and financing entity in Heze City; and (2) good track record of receiving government supports. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) rapid debt growth driven by the continuous investment in construction projects.

### **Corporate Profile**

Founded in July 1990, HZID is the largest state-owned capital operation entity in terms of asset size and the key industry investment and financing platform in Heze City. The Company is primarily responsible for public activities, including infrastructure construction, water supply, heat supply, and steam supply. It also participates in different commercial activities such as property development, self-operated project construction and production and sales business. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Heze Municipal Government had 97.93% ownership of HZID and Heze Municipal Government was the ultimate controller of HZID. Shandong Caixin Asset Operation Co., Ltd., which was wholly owned by Shandong Provincial Department of Finance, had the remaining 2.07% ownership.

### **Rating Rationale**

#### **Credit Strengths**

**Strong market position as the largest investment and financing entity in Heze City.** HZID is the largest state-owned asset operation entity in terms of asset size and the key industry investment and financing platform in Heze City, with important strategic position. Since its establishment, the Company has played an important role in the implementation of infrastructure construction, and has successfully completed major infrastructure projects. HZID also provides essential and regional dominant public services in Heze City through its several subsidiaries, including water supply, heat supply, and steam supply.

**Good track record of receiving government supports.** HZID has a good track record of receiving supports from Heze Municipal government in terms of subsidies, capital injection,

special funds, and equity transfer. Given the strategically important role of the Company in Heze City and its close relationship with the Heze Municipal Government, we believe that the HZID will continue to receive different kinds of support from the local government.

### **Credit Challenges**

**Medium exposure to commercial activities.** Apart from the public policy activities, the Company also participates in different commercial activities consisting of property development, self-operated project construction and production and sales business. HZID's exposure to commercial activities was medium, with the commercial assets accounting for less than 30% of total assets.

**Rapid debt growth driven by the continuous investment entity in construction projects.** HZID's total debt rapidly increased due to the continuous investment in construction projects in Heze City. Although HZID's total debt recorded rapid growth, the Company maintained a moderate capitalization ratio over the past three years, thanks to the ongoing capital and asset injection from the local government. However, the Company bears certain short-term debt pressure, and its short-term debt to total debt ratio remained at a relatively high level. Furthermore, HZID's asset liquidity is moderate as its total assets mainly consist of assets with low liquidity, which may undermine the Company's financing flexibility.

### **Rating Outlook**

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

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

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (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, or improved debt management and asset liquidity.

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

The rating could be downgraded if (1) the local 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, deteriorated financing ability, or decreased 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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