

CCXAP affirms Shandong Zhengfang Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 16 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Shandong Zhengfang Holding Group Co., Ltd.’s (“SDZF” or the “Company”) long-term credit rating at BBB_g, with stable outlook. At the same time, CCXAP has affirmed its senior unsecured debt rating at BBB_g.

The BBB_g long-term credit rating of SDZF reflects Zoucheng City 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 Zoucheng City Government's capacity to support reflects Zoucheng City's relatively good economic strength and fiscal metrics, as one of the Top 100 counties in China and the top counties by gross regional production (“GRP”) in Jining City.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in the infrastructure construction of Zoucheng City, especially the Zoucheng Economic Development Zone (“Zoucheng EDZ”); (2) importance in the provision of local public utility services; and (3) solid track record of government support. However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) large short-term debt maturities; and (3) relatively large exposure of non-standard financing.

Corporate Profile

Founded in 2010, SDZF is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng EDZ. The Company engages in diversified businesses, including infrastructure construction, bus operation, gas filling, industrial park operation, trading, and electricity and heat sales. SDZF was ultimately controlled by the Finance Bureau of Zoucheng City. As of 31 December 2023, the Finance Bureau of Zoucheng City held 76.51% of the Company's shares, and Agricultural Development Infrastructure Fund Co., Ltd. held the remaining 23.49% of the shares.

Rating Rationale

Credit Strengths

Important role in the infrastructure construction of Zoucheng City. There are six major LIIFCs in Zoucheng City under the control of Zoucheng City Government. Each of them has a clear position under the government's planning. Among them, SDZF is a key entity in infrastructure construction in Zoucheng City, mainly for projects in the Zoucheng EDZ such as industrial park construction, road construction and improvement, and river course improvement.

Importance in the provision of public utility services. SDZF provides public utility services including bus operation and heat supply in Zoucheng City with certain franchise advantages.

The Company is the sole entity running the bus business in Zoucheng City. With some small-scale power plants being required to shut down in Zoucheng EDZ, SDZF enters into the heat supply business in 2021 to fulfill the local needs which is essential to the livelihood of local residents and secure industrial activities.

Solid track record of government support. SDZF has a solid track record of government support in terms of obtaining franchised business, special fund allocations for project construction, financial subsidies, asset transfer, and equity shares transfer. In addition, the local government provides some preferential policies such as refunds for land consolidation, financial incentives for investment promotion, and asset transfer for revitalizing land or building resources.

Credit Challenges

Medium exposure to commercial activities. SDZF engages in various commercial activities including trading, cemetery services, leasing, labor services, industrial property development, gas filling and equity investments. The Company's commercial activities accounted for a large portion of its total assets while such business risks are considered medium.

Large short-term debt maturities. With the fast growth in the Zoucheng EDZ, SDZF has undertaken many major projects, leading the high level of debt burden over the past years. However, the Company has a relatively high short-term debt burden, with short-term debt accounting for 43.4% of total debt by the end of 2023. Considering the ongoing investment of the Company, it still needs to rely more on external financings such as government special funds, debt capital market and project loans to meet its capital needs.

Relatively large exposure of non-standard financing. SDZF has different financing channels such as banks, the domestic and offshore debt capital market, government special bond funds, and financial companies. However, it showed a reliance on non-standard financing and other payables. Although a portion of them has been repaid in 2023, the non-standard financing still accounted for a relatively large portion of total debt as of the end of 2023. Such fundings mainly have higher costs, heightening the refinancing needs for the Company.

Rating Outlook

The stable outlook on SDZF rating reflects our expectation that the Zoucheng City Government's capacity to provide support will be stable, and the Company's characteristics such as its important role in the industrial development of Zoucheng City will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zoucheng City Government's capacity to provide support strengthens; and (2) Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as significantly improved refinancing ability.

What could downgrade the rating?



The rating could be downgraded if (1) the Zoucheng City 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 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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