

## Credit Opinion

16 July 2024

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Shandong Zhengfang Holding Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Shandong Zhengfang Holding Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Shandong Zhengfang Holding Group Co., Ltd. ("SDZF" or the "Company") 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 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.

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.

## Rating Drivers

- Important role in the infrastructure construction of Zoucheng City
- Importance in the provision of local public utility services
- Medium exposure to commercial activities
- Solid track record of government support
- Large debt maturities due within one year
- Access to multiple funding sources but relatively large exposure of non-standard financing

## Rating Sensitivities

### 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.

## Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	13.9	16.2	18.1
Total Equity (RMB billion)	5.1	6.8	7.5
Total Revenue (RMB billion)	1.5	2.1	2.3
Total Debt/Total Capital (%)	54.4	50.8	46.6

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

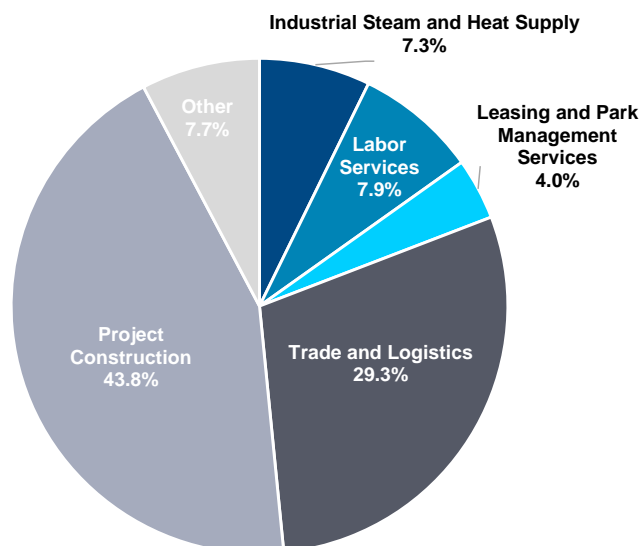
Founded in 2010, SDZF is one of the key local infrastructure investment and financing companies ("LIIFCs") in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng EDZ. The Company engages in diversified businesses, including infrastructure construction, bus operation, gas 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.

### Exhibit 1. Shareholding chart as of 31 December 2023



Source: Company information, CCXAP research

### Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe Zoucheng City Government has a strong capacity to provide support given its relatively good economic strength and fiscal metrics, ranking 47<sup>th</sup> among CCID's Top 100 Counties in China in 2023.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Located in the southern part of Shandong Province, Jining City is one of the central cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Thanks to its diversified industrial structure such as coal mining, machinery and equipment manufacturing, paper and paper products, chemical industry goods, and textiles, Jining City's economic strength and fiscal strength had been steadily improved over the past three years. In 2023, Jining City reported a GRP of RMB551.6 billion, representing 6.5% year-over-year ("YoY") growth and ranking 6<sup>th</sup> among 16 prefecture-level cities in Shandong Province. However, Jining City has moderate fiscal metrics and a moderate debt profile. The Jining Municipal Government's general budgetary revenue was RMB47.5 billion in 2023, and its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 60% over the past three years. Tax incomes slightly decreased to RMB32.4 billion in 2023 from RMB33.2 billion in 2021, accounting for 68.1% of its general budgetary revenue. As of 31 December 2023, its government debt to GRP ratio was 31.1%.

**Exhibit 3. Key economic and fiscal indicators of Jining City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	507.0	531.7	551.6
GRP Growth (%)	8.5	4.4	6.5
General Budgetary Revenue (RMB billion)	44.1	44.8	47.5
General Budgetary Expenditure (RMB billion)	72.7	74.7	78.3
Local Government Debt (RMB billion)	134.5	151.4	171.4

Source: Jining Municipal Government, CCXAP research

Located in the southwest of Shandong Province, Zoucheng City is a county-level city under the management of Jining City. Zoucheng City ranked 47<sup>th</sup> among CCID's Top 100 Counties in China in 2023, with good traffic advantages and rich coal resources. It has developed "1+5" pillar industries including digital economy, intelligent equipment manufacturing, high-end green chemical, new energy and new material, health medicine, and industrial robot, simulating Zoucheng City's economic growth in recent years. Supported by abundant resources, several large energy enterprises have settled in Zoucheng City including Yankuang Energy Group Company Limited and Huadian Power International Zouxian Power Plant. Zoucheng City is the largest county/district in Jining City by GRP. It had a GRP of RMB104.1 billion in 2023, accounting for the GRP of 19.6% of Jining City. Zoucheng City Government's general budgetary revenue also has grown for consecutive years. In 2023, its general budgetary revenue increased by 6.5% YoY to RMB9.1 billion, of which tax revenue accounted for 62.4% of its general budgetary revenue, indicating relatively good fiscal quality. Meanwhile, Zoucheng City Government has good financial self-sufficiency with fiscal balance ratios above 95% over the past three years. As of 31 December 2023, the outstanding government debt of Zoucheng City Government was RMB11.6 billion, accounting for 11.2% of its GRP.

**Exhibit 4. Key economic and fiscal indicators of Zoucheng City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	96.1	100.9	104.1
GRP Growth (%)	8.7	5.0	7.0
General Budgetary Revenue (RMB billion)	8.4	8.6	9.1
General Budgetary Expenditure (RMB billion)	8.8	8.5	9.1
Local Government Debt (RMB billion)	9.1	10.3	11.6

Source: Zoucheng City Government, CCXAP research

Zoucheng EDZ is a provincial-level development zone approved by the Shandong Provincial Government in 1992, with a planned land area of 95.4 square kilometers. Zoucheng EDZ develops five leading industries including high-end green chemical industry, new energy and new materials, high-end equipment manufacturing, biomedicine and robotics. There formed three feature industrial parks in Zoucheng EDZ, namely Zoucheng Chemical Industry Park, High-end Equipment Manufacturing Industry Park, and New Energy and New Materials Industry Park. Over years of development, Zoucheng EDZ plays an important role in the economic growth and improvement of the financial income of Zoucheng City.

## **Government’s Willingness to Provide Support**

### **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.。

SDZF engages in infrastructure construction mainly under the agency construction model. The Company signs entrusted construction agreements with Zoucheng Urban Construction Industry Development Co., Ltd., which is wholly owned by Zoucheng State-owned Assets Supervision and Administration Bureau (“Zoucheng SASAB”) and mainly responsible for project construction, fundraising and management, investment control, and acceptance. The Company receives the actual construction cost plus a certain markup, generally 20%, as project construction revenue according to the construction progress of the project. As of 31 December 2023, the Company has completed key projects of RMB3.3 billion in total investment including the water diversion project, Zoucheng Lingang Logistics Park construction project, and public utilities. At the same time, the Company had key projects under construction with a total investment of RMB2.2 billion and an uninvested amount of RMB805.3 million, which mainly includes the infrastructure construction of industrial parks, 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. As the sole entity running the bus business in Zoucheng City, the Company had 928 operating vehicles and 66 bus routes covering intra-city lines and urban-rural lines as of the end-2023. The bus ticket prices were set by the local government at a relatively low level and the Company received operating subsidies from the local government for the bus business which covered part of the operating deficit.

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. The Company provides heat for residents in Dongtan, Baodian and Nantun mining areas, and Yanzhou District. It also provides steam for companies located in the Zoucheng EDZ. As of end-2023, It had an annual capacity of 12 million square meters in heating and annual supply capacity of 3 million tons in steaming. With more companies settled in the Zoucheng EDZ, the revenue from the heat supply business is expected to increase.

### **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. From 2021 to 2023, Zoucheng City Government in total injected cash of RMB45 million and assets of RMB1.7 billion into the Company and its subsidiary. The injected assets include some public housing and water plants, which will support the Company’s asset and revenue growth. From 2021 to 2023, the Company received government subsidies of approximately RMB1.1 billion in total. The government also provided special funds totaling RMB1.9 billion over the same period to support the Company’s project construction. 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. Given the important role in infrastructure

construction and public services provision in Zoucheng City, we expect the Company will continue to receive support from the local government.

### **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.

SDZF leased its purchased property and assets allocated by the local government to supplement its income, which mainly includes office buildings, factories, industrial parks, shops, low-rent housing, water plants. As of end-2023, most of the leasable property was leased to the local government and other state-owned enterprises ("SOEs"). In addition, the Company has a large investment in industrial park construction and supporting infrastructure, which plans to balance the initial investment mainly through rental and repurchase by companies to be stationed in the industrial park. As of 31 December 2023, the Company had key projects under construction with a total investment of RMB4.7 billion and an uninvested amount of RMB3.2 billion. At the same time, the Company has 4 planned construction projects, with an estimated investment of RMB1.5 billion. Such business exposure is expected to increase in the near future. The properties that have been leased to or repurchased by the interested companies can mitigate the operational risk to a certain extent. In 2023, the revenue from property leasing and industrial park management service business increased from RMB35.5 million in 2022 to RMB91.2 million due to more properties being rented out.

The Company also engages in trading business mainly under the back-to-back mode. Major products include coal, petroleum coke, ferronickel and nickel ore. The Company will enter into purchase orders according to sale contracts with its downstream customers, with a decent margin. Trading revenue has grown steadily in recent years, increasing to RMB666.4 million in 2023 from RMB570.1 million in 2022. Sales from the commodity trading segment account for a relatively large portion of the Company's operating income but generated small profit. At the same time, the concentration risk was high as the percentages of the Top 5 upstream and downstream customers were high.

### **Access to multiple funding sources but constrained by relatively large exposure of non-standard financing**

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. Supporting by the lending funds from the township governments and SOEs in Zoucheng City, SDZF repaid part of its non-standard financing debt in 2023. SDZF's total debt decreased from RMB7.0 billion in 2022 to RMB6.6 billion in 2023. The total capitalization ratio (total debt/total capital) of SDZF maintained at 46.6% in 2023. 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.

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.

SDZF's financing ability is supported by its good relationships with banks and the support of the local government. As of 31 December 2023, the Company had bank credit facilities of approximately RMB2.7 billion and had available credit lines of approximately RMB626.3 million. SDZF also actively expands its financing channel, for example, in March 2023, the Company issued a 7-year green corporate bond to raise RMB700 million. From January 2023 to May 2024, the Company also issued 4 tranches of offshore bonds to totally raise CNY878 million and USD18 million. The tenor of SDZF's offshore bonds was between 2 years and 3 years.

The Company's refinancing ability has a significant impact on its financing stability, which may be easily influenced by the change in the financing market. The refinancing environment in Zoucheng City is moderate and the local LIIFCs bear a relatively higher funding cost. Furthermore, there is a phenomenon of intercompany lendings and mutual guarantees among local SOEs in Zoucheng City, which exposes local SOEs to cross-default risks in case a credit event exists. As of end-2023, SDZF has provided external guarantees of around RMB665 million to local SOEs, accounting for around 11.2% of its net assets.

## ESG Considerations

SDZF faces environmental risks because it has undertaken infrastructure construction in Zoucheng City. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

SDZF bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects and providing public services in Zoucheng City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the company.

SDZF's governance considerations are also material as the Company is subject to oversight by the Zoucheng City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## Structural Considerations

SDZF's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in the industrial development of Zoucheng City, thereby mitigating any differences in an expected loss that could result from structural subordination.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

## Appendix

### Exhibit 5. Peer Comparison

	Zoucheng Urban Assets Holding Group Co., Ltd.	Shandong Zhengfang Holding Group Co., Ltd.	Zoucheng Limin Construction Development Group Co., Ltd.	Shandong Zhicheng Agricultural Development Group Co., Ltd.
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>	BBB <sub>g</sub> <sup>-</sup>	BBB <sub>g</sub> <sup>-</sup>
Shareholder	Finance Bureau of Zoucheng City (100%)	Finance Bureau of Zoucheng City (76.51%) and Agricultural Development Infrastructure Fund Co., Ltd. (23.49%)	Zoucheng Limin Holding Group Co., Ltd. (90%) and Shandong Caixin Asset Operation Co., Ltd. (10%)	Finance Bureau of Zoucheng City (100%)
Positioning	Key entity in urban infrastructure and state-owned assets operation in Zoucheng City	Key entity in infrastructure construction in Zoucheng City, especially the Zoucheng Economic Development Zone	Key entity in infrastructure construction in Zoucheng City, especially the Mencius Lake New District	Key entity in agricultural development in Zoucheng City
Total Asset (RMB billion)	52.1	18.1	22.2	11.0
Total Equity (RMB billion)	17.2	7.5	8.7	8.1
Total Revenue (RMB billion)	8.9	2.3	1.8	0.4

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company data, CCXAP research



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