

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Zhejiang Changxing Financial Holdings Group Co., Ltd., with stable outlook.**

Hong Kong, 27 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>- long-term credit rating to Zhejiang Changxing Financial Holdings Group Co., Ltd. (“ZCFH” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of Zhejiang Changxing Financial Holdings Group Co., Ltd. (“ZCFH” or the “Company”) reflects Changxing County Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Changxing County Government’s capacity to provide support reflects its status as the 47<sup>th</sup> in the Top 100 Economic Counties in China in 2021, with good economic strength and moderate fiscal metrics, but a modest debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) status as the primary platform fully owned and controlled by the Changxing County Government; (2) important position in land development and infrastructure construction in Changxing County; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium commercial business risk; (2) moderate debt management and asset liquidity; and (3) contingent liability risks in external guarantees.

### **Corporate Profile**

Founded in 2011, ZCFH is one of the predominant state-owned capital management and industrial investment enterprise in Changxing County. The Company is mainly engaged in land development and infrastructure construction in Changxing County. In addition, the Company also conducts commercial business such as commercial trading, financial investment, and tourism. In 2021, the Company acquired Changxing Chengxi Construction Development Group Co., Ltd. (“Chengxi Construction”), and expanded the scope of its infrastructure construction business. As of 30 June 2022, the Company was wholly owned and controlled by the Changxing Finance Bureau.

### **Rating Rationale**

#### **Credit Strengths**

**Primary platform for land development and infrastructure construction in Changxing County.** As of end-2021, ZCFH was the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Changxing County. The Company is firmly committed to serving regional industrial development and actively participated in comprehensive land demolition and infrastructure construction projects in the region. We expect the Company to maintain its strategic position in the foreseeable future, given its large pipeline of public-related projects and sufficient infrastructure construction projects under construction.

**Good track record of receiving government payments.** The local government provides strong support to the Company through various methods including project repayments, cash

injections, equity transfers, asset injections and financial subsidies. In 2021, the local government enhanced the Company's capital strength by transferring the sewage pipe network and equity shares to the Company, together with the injection of capital, which amounted to RMB5.6 billion. Furthermore, the Company had received government subsidies and financial interest subsidies in the past three years, with a total amount of RMB2.4 billion from 2019 to 2021.

**Diversified sources of funding.** ZCFH's good access to various funding sources, including bank loans and bond issuances, may partially ease its liquidity pressure. The Company maintains good relationships with large domestic banks such as the Agricultural Development Bank of China. As of end-2021, the Company's total credit facilities were RMB21.4 billion, of which the unutilized amount was about RMB3.7 billion. The Company also has good access to both the onshore and offshore debt markets. In the first nine months of 2022, the Company and its subsidiaries raised RMB2.2 billion through the onshore debt market, with a coupon rate ranging from 4.2% to 4.9%, and raised USD155.5 million through the offshore debt market.

#### Credit Challenges

**Medium commercial business risk.** ZCFH participated in commercial activities such as commercial trading, financial investment, tourism and property leasing businesses. ZCFH's financial investment business mainly consists of equity investment and debt investment. Although these types of investments expose the Company to certain business risks, they are policy-driven to promote the development of local enterprises and industries. ZCFH's commercial trading business mainly includes the sales of materials related to battery production, such as electrolytic lead. The commercial trading business is the Company's largest source of revenue, accounting for 66.4% of its total revenue in 2021, but recording a low gross profit margin of less than 1%.

**Moderate debt management and asset liquidity.** ZCFH's total debt maintained an increasing trend due to its continued investment in public-related businesses and the long payback period of such businesses. The Company's total debt increased from RMB33.4 billion in 2020 to RMB37.9 billion in 2021, while the debt capitalization ratio (total debt to total capital) decreased from 52.2% in 2020 to 50.3% in 2021. ZCFH's asset liquidity was moderate, as its assets were mainly illiquid inventories.

**Contingent liability risks in external guarantees.** Mutual guarantees between local state-owned enterprises ("SOEs") in Changxing County continue to exist. As a result, the Company is exposed to moderate contingent liabilities risks. At end-2021, the Company's external guarantee amounted to RMB10.1 billion, accounting for 27.1% of its net assets.

#### Rating Outlook

The stable outlook on ZCFH's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in land development and infrastructure construction in Changxing County.



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

The rating could be upgraded if (1) the local 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 support, such as reduced exposure to commercial activities, increased government payments, or improved debt management.

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

The rating could be downgraded if (1) the local 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 support, such as decreased strategic significance, reduced government payments, or increased exposure to commercial activities.

### **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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