

CCXAP assigns first-time long-term credit rating of BBB_g to Zhengding State-owned Assets Holding and Operating Group Co., Ltd., with stable outlook.

Hong Kong, 22 August 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Zhengding State-owned Assets Holding and Operating Group Co., Ltd. (“ZDSH” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of ZDSH reflects Zhengding County Government's (1) 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 the local government's capacity to provide support reflects Zhengding County's well-defined functional position and increasing economic growth, but constrained by its unstable revenue structure and relatively high debt burden.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in urban and rural construction, urban operation, and industrial incubation of Zhengding County; and (2) good track record of receiving government support. However, the rating is constrained by the Company's (1) rapid debt growth with large capital expenditure pressure; and (2) relatively weak asset liquidity.

Corporate Profile

Established in October 2022, ZDSH is an important urban and rural construction and development investment and financing entity, urban operation entity, as well as industrial cultivation entity in Zhengding County. Guided by the local government, the Company consolidated 9 local state-owned enterprises (“SOEs”) in Zhengding County from 2022 to 2023 and is responsible for infrastructure construction, water supply operation, maintenance service and affordable housing operation in Zhengding County. ZDSH also has diversified its business into commercial activities such as supermarket operation, grain and oil sales, trading, sand and gravel sales, charging pile operation, and cultural tourism. As of 31 March 2024, the Company is wholly and directly owned by the Finance Bureau of Zhengding County.

Rating Rationale

Credit Strengths

Important role in urban and rural construction, urban operation, and industrial incubation of Zhengding County. With the authorization of the local government, ZDSH is in charge of infrastructure construction in most areas of Zhengding County. ZDSH also shoulders the responsibilities of urban operation in Zhengding County, including water supply operation, charging pile operation, maintenance service and affordable housing operation. Overall, ZDSH has a large scope for development and a strong capacity for business sustainability in Zhengding County, as well as an essential role in the urban operation. In our view, the Company is unlikely to be replaced by other local SOEs in the foreseeable future.

Good track record of receiving government support. ZDSH has a good track record of receiving government support in various forms such as equity transfer, asset injection, financial subsidies, and capital injection. As of 31 March 2024, the local government transferred equities of 9 local SOEs, tourism resources, operation right of sand, gravel and auxiliary materials, and other assets to ZDSH, increasing its capital reserve to RMB12.3 billion and broadening its business scope. From 2022 to 2024Q1, the local government injected capital of RMB890 million in total to the Company, enhancing ZDSH's capital strength. Over the same period, the Company consistently received a total of RMB99 million in financial subsidies from the local government.

Credit Challenges

Rapid debt growth with large capital expenditure pressure. ZDSH's debt had grown rapidly over the past three years due to the purchase of franchise rights and affordable housing, as well as the expansion of business. Considering the large scale of construction projects in pipeline and the ongoing project investments, we expect that the Company's future investment amount in self-operated projects will be more than RMB9.0 billion and the Company will rely on external financing to fulfill its investment needs, further increasing its debt burden and capital expenditure pressure in the next 12-18 months.

Relatively weak asset liquidity. ZDSH has relatively weak asset liquidity. As of 31 March 2024, the other non-current assets, inventories, investment properties and intangible assets accounted for around 79% of its total assets. These assets were mainly the operation right of sand, gravel and auxiliary materials, tourism resources, construction costs of infrastructure construction, as well as purchased affordable housing, which were considered as low liquidity. Moreover, the asset valuation of the operation right of sand, gravel and auxiliary materials is relatively high, at around RMB7.0 billion. We should pay attention to whether the high asset valuation can bring stable returns in corresponding sales.

Rating Outlook

The stable outlook on ZDSH's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic role in the development of Zhengding County in the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zhengding County Government's capacity to support 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 diversified funding channels.

What could downgrade the rating?

The rating could be downgraded if (1) Zhengding County 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 regional significance or deteriorated financing ability.

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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