

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

Hong Kong, 21 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Zoucheng Urban Assets Holding Group Co., Ltd.’s (“ZCUA” 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 ZCUA reflects (1) Zoucheng City Government’s strong capacity to support; and (2) the local government’s very high willingness to 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.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Zoucheng City; (2) important role in the infrastructure construction in Zoucheng City; and (3) good track record of government support. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) moderate debt management with a large maturity scale; and (3) high contingent liabilities risk.

Corporate Profile

Founded in 2003, ZCUA is the largest LIIFC in Zoucheng City in terms of asset size. It is one of the key state-owned enterprises for Zoucheng City Government to implement strategic and economic development policies. The Company shoulders the responsibility for public infrastructure projects and public services, including infrastructure construction, resettlement housing construction, heat supply, and electricity supply in local urban areas. It also engages in some commercial activities, including mining, trading, yeast production, as well as property leasing. As of 31 December 2023, ZCUA was directly and wholly owned by the Finance Bureau of Zoucheng City.

Rating Rationale

Credit Strengths

The largest LIIFC in Zoucheng City by total assets. There are six major LIIFCs under the control of the Finance Bureau of Zoucheng City in Zoucheng City. Each of them has a clear position under the government’s planning. Among them, ZCUA is the largest one and its total assets are much larger than others. In addition, the Company has the largest outstanding amount of bonds among the LIIFCs in Zoucheng City. We believe that a default by ZCUA could have a significant impact on the local government’s reputation and local financing environment.

Important role in the infrastructure construction in Zoucheng City. Along with the development of Zoucheng City, ZCUA has undertaken several major infrastructure construction projects including affordable housing in the mining areas, river management projects, road

construction and improvement projects, and wastewater treatment plants. The Company also conducts engineering construction by public bidding and the projects are mainly municipal projects such as urban roads, bridges, and sewage facilities.

Good track record of government support. The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds, asset injection and equity transfer. Considering the completion of ZCUA's infrastructure construction projects and large government-related receivables, the Company would receive the related government payments in the future. However, it may depend on the government's fiscal revenue and its planning.

Credit Challenges

Medium exposure to commercial activities. The Company engages in various commercial activities including mining, trading, yeast production as well as property leasing. Based on our assessment, the Company's exposure to commercial activities is medium as the commercial assets accounted for less than 30% of total assets.

Moderate debt management with a large maturity debt. The Company demonstrated moderate debt management with relatively high debt leverage and a concentrated debt structure. As of 31 December 2023, the total debt amounted to RMB26.7 billion with a total capitalization ratio of 60.8%. In addition, the Company had high short-term debt level of RMB15.4 billion, which accounted for 57.6% of total debt, and consisted of a large amount of maturing or puttable bonds.

High contingent liability risk from external guarantees to local state-owned enterprises. As of 31 December 2023, the Company's external guarantees amounted to RMB9.9 billion, accounting for 57.3% of its net assets, and were provided to state-owned enterprises. Mutual guarantees between local SOEs are common in Zoucheng City. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

Rating Outlook

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

What could upgrade the rating?

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