

## Credit Opinion

20 August 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

### Analyst Contacts

Cherry Chau +852-2860 7128

Credit Analyst

[cherry\\_chau@ccxap.com](mailto:cherry_chau@ccxap.com)

Leimen Chen +852-2860 7130

Assistant Credit Analyst

[leimen\\_chen@ccxap.com](mailto:leimen_chen@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

*\*The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

### Client Services

Hong Kong +852-2860 7111

## Heze Investment Development Group Co, Ltd.

### Surveillance credit rating report

### CCXAP upgrades Heze Investment Development Group Co., Ltd.'s long-term credit rating to A<sub>g</sub>-, with stable outlook.

#### Summary

China Chengxin (Asia Pacific) Credit Rating Company Limited ("CCXAP") has upgraded the long-term credit rating of Heze Investment Development Group Co., Ltd. ("HZID" or the "Company") to A<sub>g</sub>- from BBB<sub>g</sub>+. The rating upgrade is underpinned by the Company's solid role as the most important state-owned capital operation entity in Heze City, with relatively high degree of business diversification and strong business sustainability. It also reflects a high likelihood of government support given the Company's dominant role and strong competitiveness.

The A<sub>g</sub>- long-term credit rating of HZID reflects the Company's (1) strong regional competitiveness and importance in engineering construction and public utility service; (2) relatively good business diversity and sustainability; and (3) diversified financing channels.

However, the rating is constrained by the Company's (1) susceptibility to market volatility risks in property development and other service businesses; (2) increasing debt burden with relatively weak debt serving capability; and (3) modest liquidity position.

The rating also reflects a high likelihood of support from the Heze Municipal Government when needed, which is based on the Company's (1) status as the largest stated-owned capital operation entity and the key industrial investment platform in Heze City, with strategic importance; (2) direct ownership and ultimate control by the Heze Municipal Government; (3) importance in urban operations and social livelihood in Heze City, as the major public utility services provider; and (4) good track records of receiving government support.

The stable outlook on HZID's rating reflects our expectation that the Company will maintain its regional competitiveness and strategic importance in Heze City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government.

## Rating Drivers

- Most important state-owned capital operation platform in Heze City, with strong regional competitiveness and importance in engineering construction and public utility service
- Relatively large revenue contribution from diversified production and sales businesses along with thin profit margin
- Susceptibility to market volatility risks in property development and other service businesses
- Relatively good revenue scale but with modest profitability
- Increasing debt burden with relatively weak debt serving capability
- Modest liquidity position mitigated by diversified access to funding
- High likelihood of support from Heze Municipal Government

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government support for the Company strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as an improvement in profitability and debt structure.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as a deterioration in debt leverage or liquidity.

## Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	68.6	67.1	70.4	71.6
Total Equity (RMB billion)	37.2	34.0	37.0	37.0
Total Revenue (RMB billion)	8.2	8.4	8.2	2.0
Net Profits (RMB million)	266.8	236.3	165.6	5.2
EBIT Margin (%)	8.7	8.2	9.4	-
Return on Assets (%)	1.1	1.0	1.1	-
Total Debt/Total Capital (%)	29.4	35.2	34.3	36.1
Total Debt/EBITDA (x)	15.0	14.1	15.9	-
EBITDA/Interest (x)	1.8	1.6	1.4	-
FFO/Total debt (%)	6.6	6.9	5.4	-

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

Source: Company data, CCXAP research

## Corporate Profile

Founded in July 1990, HZID is the largest local state-owned enterprise ("SOE") by asset size, and the most important state-owned capital operation entity in Heze City. The Company is primarily responsible for the construction of urban infrastructure, state-owned capital operation, and industrial investment in Heze City. Its business covers engineering construction and public utilities, including supply of water, heat, and steam. It also

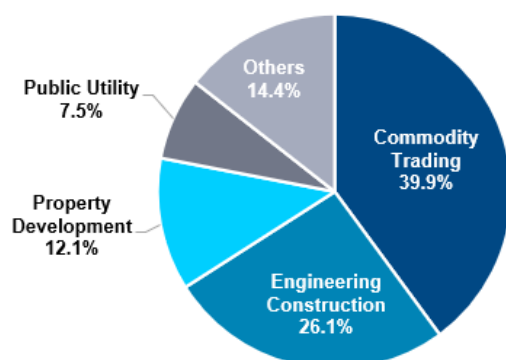
participates in diversified commercial activities such as property development and commercial trading. As of 31 March 2025, the State-owned Assets Supervision and Administration Commission of Heze Municipal Government ("Heze SASAC") had 97.93% ownership of HZID and Heze Municipal Government was the ultimate controller of HZID. Shandong Caixin Asset Operation Co., Ltd., which was wholly owned by Shandong Provincial Department of Finance, had the remaining 2.07% ownership.

#### Exhibit 1. Shareholding chart as of 31 March 2025



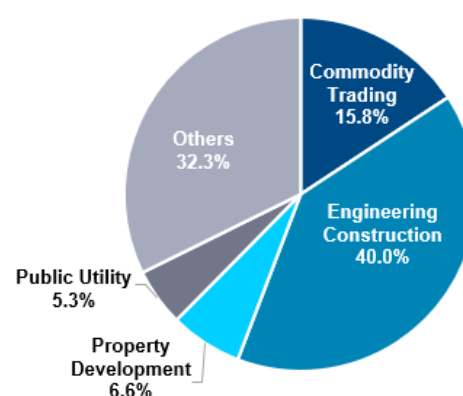
Source: Company information, CCXAP research

#### Exhibit 2. Revenue structure in 2024



Source: Company information, CCXAP research

#### Exhibit 3. Gross profit structure in 2024



## Rating Considerations

### Business Profile

**Most important state-owned capital operation platform in Heze City, with strong regional competitiveness and importance in engineering construction and public utility service**

HZID is the largest state-owned asset operation entity in terms of asset size, serving as the key urban development and industrial investment platform in Heze City, playing a strong strategic role in the social, economic, and urban development of Heze City. Since its establishment, the Company has played a crucial role in the implementation of urban and industrial infrastructure construction, and has successfully completed major construction projects. In addition, HZID is the major public utility server in Heze City, holding certain degree of regional monopoly and exclusivity in public utility services in Heze City.

HZID engaged in engineering construction business in Heze City with relevant qualifications. The Company's subsidiaries Heze Urban Construction Engineering Development Group Co., Ltd. ("HUCG") possesses the Special-Class General Contracting Qualification for Construction, and Shandong Zhongze Engineering Group Co., Ltd. holds Professional Qualification for Hydraulic and Hydroelectric Engineering, which give the Company's comparative advantage in undertaking projects, including municipal engineering, municipal pipe network, and water conservancy construction projects. Benefiting from its state-owned background and good qualifications, the Company newly acquired 103 high-quality contracts with total contracted amount of RMB6.3 billion in 2024. As of 31 December 2024, the Company had uncompleted contracts in hand with a total amount of RMB9.2 billion. Among them, the top five engineering construction projects under construction had a planned investment of RMB1.8 billion and an uninvested amount of RMB1.2 billion, respectively. Considering that the payment of the projects is paid according to the construction progress and some projects are supported by government special purpose funds, we expect the Company's investment pressure to be controllable. In 2024, the engineering construction business generated revenue of RMB2.1 billion for the Company, with a gross profit margin of 25.3%. This segment is the largest gross profit contributor, accounting for 40.0% of the Company's total gross profit. Moreover, the Company has actively expanded its project portfolio beyond Heze City and Shandong Province over the past years, such as Jiangsu Province and Sichuan Province. Considering the relatively large construction project reserves in hand, we expect the Company will continue to obtain increasing revenue and profit from this segment in the future due to the strong business sustainability.

HZID also participated in the public-private partnership ("PPP") projects. The PPP projects had been completed, and the Company was no longer involved in construction and additional investment. As of 31 March 2025, the Company had received a total payment of RMB108.0 million from the local government.

HZID provides essential and regionally dominant public services in Heze City through several subsidiaries, including water supply, heat supply, and steam supply. It is the only entity to provide water supply service in the urban area of Heze City, covering residential and non-residential customers. As of 31 March 2025, the Company owned pipeline network with total length of 601.2 kilometers, two reservoirs, and two water plants, together with a daily water supply capacity of 150,000 tons. In recent years, the revenue from water supply has shown a growing trend, owing to the increase in sales volume. In 2024, the Company recorded RMB135.9 million in revenue from water supply, up by 7.1% YoY as compared to 2023. HZID is also involved in the heat supply sector, serving residential and commercial customers. As of end-March 2025, the heating service area covers approximately 30.0 million square meters, serving approximately 85% of the urban area of Heze City, demonstrating market dominance. Moreover, HZID provides industrial steam supply to commercial customers, mainly in Heze Economic and Technological Development Zone as well as the eastern and northern urban area of Heze City, with increasing district coverage.

Overall, HZID holds a strong market position in the utilities sector within Heze City, granting it comparative advantages and strong business sustainability. As of 31 March 2025, HZID had 3 key projects under construction in public utility segments, with the total investment and uninvested amount of RMB3.3 billion and RMB1.4 billion, respectively, exerting certain capital expenditure pressure. At the same time, the Company had 2 heating projects under planning, with a total planned investment of RMB3.2 billion. Upon this project completion, we expect that the scale and capacity of the Company's public utility business will expand in the future, and its market position in Heze City will remain strong.

**Relatively large revenue contribution from production and sales business along with thin profit margin**

HZID also engages in production and sales business, with diversified products such as building materials, medicines, meat and processing of by-products, and precision mold. In 2024, revenue from this segment increased to RMB3.3 billion from RMB3.1 billion in 2023, representing 4.3% YoY increase. This business segment is the largest contributor to the Company's total revenue. However, the profitability is relatively low for the production and sales business due to high production, storing and logistic costs, with its gross profit margin being 6.5% in 2024.

For the production and sales of building materials, the Company primarily produces concrete, steel components, and other relevant products. Sales contracts are usually settled through prepayment and monthly billing. HZID realized RMB2.3 billion of revenue from this business sector, accounting for most of its total production and sales revenue. Additionally, both downstream customers and upstream suppliers in this business are relatively decentralized.

The Company's meat production and processing by-products business covers the entire pork supply chain including breeding, slaughtering, freezing, and logistics distribution, with a nationwide sales network. In 2024, this business sector generated RMB784.0 million in revenue, up by 20.4% YoY. HZID holds a distinct competitive advantage in this sector, as its subsidiary is the second-largest meat processing enterprise in Heze City, commanding a significant market share in meat product sales within Heze City.

HZID's pharmaceutical sales business mainly deals in drugs, hygiene products, and medical devices, with downstream customers mainly consisting of public hospitals, clinics, and pharmacies in Heze City. Meanwhile, this business carries relatively high concentration risk, as its top five suppliers accounted for 93.1% of total procurement in 2024. Moreover, the revenue from this business segment declined from RMB107.0 million in 2023 to RMB44.0 million in 2024, primarily due to the Company's divestment of equity in the operating subsidiary of this business, which consequently was no longer consolidated starting from 2024.

### **Susceptibility to market volatility risks in property development and other service businesses**

HZID also participates in other commercial businesses, including property development and construction of self-operated projects. Given the market-driven nature, the profitability of these segments in the future is uncertain and is highly vulnerable to the market conditions.

HZID's property development business mainly involves the construction and sales of residential properties in Heze City. As of 31 March 2025, the Company had 2 key projects under construction, including commercial housing and office buildings, with a total investment of RMB2.7 billion and an uninvested amount of RMB325.7 million. Meanwhile, the Company had no subsequent property development projects under planning. HZID also had 2 completed real estate projects as of the same date, with a total investment of RMB1.3 billion, which have been essentially sold out. At the same time, the Company also engages in the market-oriented sales of a resettlement housing project, achieving a sale rate of 45%. Moreover, HZID was commissioned by the local government to construct 2 resettlement housing projects as of 31 March 2025, with a total investment of RMB2.3 billion, and uninvested amount of RMB750.0 million. However, the investment progress has slowed down in recent years. Given the current downturn of China's real estate market, the Company may face certain market volatility and uncertainties during the construction, sales, and operation of its property development projects.

Besides, HZID focuses on the construction of self-operated projects, including vocational education centers and national forest. The construction costs of such self-operated projects will be balanced by the operating income generated after the construction is completed, such as leasing income, tuition and training fees, as well as sales of wood. However, the payback period is expected to be long for these projects. As of 31 March 2025, the

Company had 3 key self-operated projects under construction, with a total investment of RMB3.4 billion and an uninvested amount of RMB2.5 billion, exerting relatively large capital expenditure pressure on the Company in the near term. The Company has applied for project loans from policy banks, such as China Development Bank, and commercial banks. In addition, these projects are still in initial stage, bringing uncertainty about future operations and fund balancing performance.

The Company also engages in hotel operations, property leasing, and other service businesses, which are highly susceptible to local market conditions. These revenue streams may face growing market volatility amid growing market uncertainties.

## Financial Profile

### Relatively good revenue scale but with modest profitability

HZID has sustained relatively high revenue levels over the past three years, supported by its diversified business portfolio and regional comparative advantages in engineering construction and public utility businesses. In 2024, the Company recorded RMB8.2 billion in revenue, with production and sales business being the largest revenue contributor (39.9%), followed by engineering construction (26.1%) and property development (12.1%). The Company's EBIT was RMB766.5 million in 2024, up by 10.7% YoY as compared to 2023. Over the same period, the Company's EBIT margin increased from 8.2% to 9.4%.

However, the Company's asset profitability remains relatively weak, as reflected by its return on assets. Its asset yield remained at a relatively low level, with the average return on assets recording 1.1% over the past three years. The relatively low asset yield is primarily due to the continuous expansion of its total asset base in recent years, coupled with profit growth that has not kept pace with the scale of asset growth. Considering the Company's diversified business portfolio and continuous expansion, we expect the Company's revenue to maintain a growth trend over the next 12 to 18 months.

### Increasing debt burden with relatively weak debt serving capability

HZID's total debt increased rapidly over the past three years, owing to the continuous investment of the construction projects. Its total debt increased from RMB18.5 billion in 2023 to RMB21.0 billion as of 31 March 2025. Despite the fast debt growth, the Company maintained a moderate level of debt leverage over the past three years due to the ongoing capital and asset injection from the local government. As of 31 March 2025, the Company's total capitalization ratio (total debt/total capital) was 36.1%. However, the Company bears certain short-term debt pressure, and its short-term debt to total debt ratio remained at a relatively high level of 42.0% and its unrestricted cash to short-term debt ratio was 0.3x as of 31 March 2025, which is insufficient to cover short-term debt. Due to the large uninvested amount of construction projects and maturing debt, we estimate the Company would continue to rely on external financing such as bank loans and bond issuance. As a result, its total debt would further increase over the next 12-18 months.

In addition, as the Company's debt burden and financing costs increased, HZID maintained a relatively weak debt servicing capability, which is reflected by its debt serving metrics. Its Total debt/EBITDA ratio was averaged at 15.0x over the past three years, and the average EBITDA coverage ratio was around 1.6x. In 2024, the Company's FFO to total debt ratio was 5.4%, indicating that the Company primarily relies on external financing rather than operating cash flow for debt servicing. The Company's EBITDA can provide sufficient coverage for debt interest payment, but the coverage capacity has weakened. Additionally, both EBITDA and FFO demonstrate inadequate coverage capability for debt principal repayment. These debt serving metrics indicate



that the Company's operating profits provide insufficient coverage for its debt obligations and financing costs, necessitating reliance on external financing to meet its repayment commitments.

### **Modest liquidity position mitigated by diversified access to funding**

HZID's asset liquidity is moderate. As of 31 March 2025, account receivable, inventories, construction in progress, and intangible assets together accounted for 63.9% of the Company's total assets. These assets primarily consist of development costs from construction projects and receivables, along with work-in-progress inventories from sales and production businesses, as well as the water conservancy projects and land for water supply projects, all of which are considered to have low liquidity. Moreover, the Company had pledged some of its assets for loans. As of 31 March 2025, its restricted assets amounted to approximately RMB5.3 billion, representing 7.4% of its total assets. Therefore, the Company's financial flexibility may be undermined by its liquidity profile.

HZID has good access to funding given its relatively diversified funding structure, including bank loans, domestic bond issuance, and non-standard products financing, which may mitigate the debt repayment and liquidity pressure of the Company. Bank loans are the main funding source for the Company, which accounted for more than 60% of the total debt as of 31 March 2025. In terms of financing cost, the Company's current interest rate on bank loans range between 3.5% to 6.5%. Moreover, the Company maintains established banking relationships with China's leading policy banks and national commercial banks, having secured RMB25.7 billion of bank credit facility as of 31 March 2025, of which RMB11.5 billion remained undrawn. Meanwhile, HZID has good access into the onshore debt capital market. From January 2024 to June 2025, the Company and its subsidiary, HUCG, together issued RMB5.8 billion of onshore bonds, including private corporate bonds and MTN, with coupon rates range between 2.17% to 3.88%. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities and further issuing debt instruments. In addition, the Company's exposure to non-standard financing was relatively low, accounting for less than 5.0% of its total debt as of 31 March 2025.

## **External Support**

### **High likelihood of support from Heze Municipal Government**

We expect a high likelihood of government support from the Heze Municipal Government in times of need. Our expectation incorporates the considerations of the Company's (1) status as the largest stated-owned asset operation entity and the key industrial investment platform in Heze City, with strategic importance; (2) direct ownership and ultimate control by the Heze Municipal Government; (3) importance in urban operations and social livelihood in Heze City, as the major public utility services provider; and (4) good track records of receiving government support.

Heze City is a prefecture-level city of Shandong Province and is located in the southwest of Shandong Province with a good economic foundation. Heze City's GRP has been ranking 8<sup>th</sup> among 16 prefecture-level cities in Shandong Province over the past three years. Heze City's economic growth is mainly driven by the key industries including the high-end chemical industry, biomedicine, mechanical and electrical equipment manufacturing, new energy and new material, agricultural and sideline products, as well as trade logistics and e-commerce. Heze City's economic strength has been increasing. In 2024, Heze City reported a GRP of RMB480.3 billion, recording an economic growth of 6.1% YoY. The general budgetary revenue increased annually on the back of steady economic growth and development of the key industries. In 2024, the general budgetary revenue rose to RMB32.9 billion from RMB31.7 billion in 2023. In the first quarter of 2025, Heze City reported a GRP of RMB114.1 billion, representing a 5.7% YoY growth.

HZID is the largest SOE in Heze City by asset size, primarily responsible for key infrastructure construction, public utility services, and industrial investment within Heze City, playing a significant role in local urban development and state-owned assets operation.

The Heze Municipal Government maintains a high degree of control over HZID's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, and performance to the Heze SASAC. The Company has a good track record of receiving supports from Heze Municipal Government in terms of subsidies, capital injection, special funds, project payments, and equity transfer. For instance, in 2021, the local government transferred 100% equity of Heze Water Affairs Group Co., Ltd. and Heze Tongsheng Investment Development Group Co., Ltd. to HZID, significantly enlarging its capital strength and business scale. The Company continued to receive government operational subsidies of RMB40.2 million from 2023 to 2024, supporting its operation. Moreover, the Company received government special purpose funds of RMB261.0 million to support its construction projects in 2024. Besides, HZID's capital reserves increased in 2024 due to the local government's allocation of special purpose bond funds of RMB713.0 million on a non-repayable grant basis. Given the strategically important role of the Company in Heze City and its close relationship with the Heze Municipal Government, we believe that the HZID will continue to receive support from the local government.

## ESG Considerations

HZID is exposed to environmental risks due to undertaking key infrastructure construction. 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.

The Company bears social risks as it implements public policy initiatives by playing an important role in the social welfare of Heze 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.

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

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).



## Appendix

### Exhibit 4. Peer Comparison

	Heze Investment Development Group Co., Ltd.	Heze Urban Construction Engineering Development Group Co., Ltd	Heze Finance Investment Group Co., Ltd.
Long-Term Credit Rating	A <sub>g</sub> -	BBB <sub>g</sub> +	BBB <sub>g</sub> +
Shareholder	Heze SASAC (97.9%) and Shandong Caixin Asset Operation Co., Ltd. (2.1%)	Heze Investment Development Group Co., Ltd (50.4%) and Heze City Investment Holding Group Co., Ltd (49.6%)	Heze SASAC (100.0%)
Positioning	Pivotal entity in state-owned capital operation and industrial investment in Heze City	Important entity in engineering construction and urban operation in Heze City	Key entity in infrastructure construction, policy-oriented grain storage, and public transportation in Heze City
Total Assets (RMB billion)	70.4	30.1	38.7
Total Equity (RMB billion)	37.0	12.3	14.8
Total Revenue (RMB billion)	8.2	4.2	4.8
Total Debt/Total Capital (%)	34.3	43.1	43.2

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2024.

Source: CCXAP research

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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656