Credit Opinion

25 March 2026

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g-
Outlook	Stable

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Shandong Honghe Holding Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g- long-term credit rating of Shandong Honghe Holding Group Co., Ltd. ("SHHG" or the "Company") is underpinned by the Company's (1) status as a major coal mining company in Zoucheng City; (2) stable coal mining and trading business supported by solid and diversified demands; (3) relatively high profitability level; and (4) asset transfer from shareholders.

However, the rating is also constrained by the Company's (1) earnings vulnerable to energy prices and industry policy adjustments; (2) small scale of coal mining production and reserves; (3) increased debt burden and moderate debt servicing capacity; and (4) moderate liquidity profile.

The rating also reflects SHHG's high likelihood of receiving strong support from its parent, Zoucheng Urban Assets Holding Group Co., Ltd. ("ZCUA"), the largest local infrastructure investment and financing company ("LIIFC"), which mainly engages in the infrastructure construction in Zoucheng City. The high likelihood of parent support based on the Company's (1) unique position as the sole coal mining subsidiary of ZCUA; (2) status as a key revenue and profit contributor of ZCUA; (3) cross-default clauses associated with the offshore bond issuances of ZCUA.

The stable outlook on SHHG's rating reflects our expectation that the Company will maintain its good regional competitiveness in the coal mining business in Zoucheng City over the next 12-18 months.

Rating Drivers

- Major coal mining company in Zoucheng City
- Earnings vulnerable to energy prices and industry policy adjustments
- Stable coal mining and trading business supported by solid and diversified demands
- Small-scale coal mining production and reserves
- Relatively high profitability with moderate revenue scale
- Increased debt burden and moderate debt servicing capacity
- Moderate liquidity profile mitigated by diversified funding channels
- Strategic importance to its parent and local government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) commodity prices rise substantially, further boosting the Company's profits; (2) the Company's market position strengthens with a material increase in product output; (3) the Company demonstrates lower debt leverage and improved liquidity position; and (4) there is strong parent-subsidiary linkage with ZCUA.

What could downgrade the rating?

The rating could be downgraded if (1) commodity prices fell sharply, adversely affecting the Company's earnings; (2) the Company's total debt level rose sharply; (3) the Company demonstrates deteriorated credit metrics and weakened liquidity profile; and (4) there is weak parent-subsidiary linkage with ZCUA.

Key Indicators

	2022FY	2023FY	2024FY	2025Q3
Total Assets (RMB billion)	14.3	16.0	26.3	26.4
Total Equity (RMB billion)	6.9	7.3	14.9	15.1
Total Revenue (RMB billion)	5.4	5.1	4.6	3.7
Net Profits (RMB billion)	0.4	0.3	0.3	0.2
EBIT/Revenue (%)	14.3	15.1	17.5	-
EBIT/Average Assets (%)	5.6	5.1	3.8	-
Total Debt/Total Capital (%)	45.7	49.2	39.6	39.7
Total Debt/EBITDA (x)	5.8	7.0	9.3	-
EBIT/Interest (x)	1.9	2.0	1.6	-
(CFO-Dividend)/Total Debt (%)	2.7	6.7	8.1	-

All ratios and figures are calculated using CCXAP's adjustments. Indicators marked with "-" are not applicable or not comparable.

Source: Company data, CCXAP research

Corporate Profile

Founded in 1998, SHHG is a major coal mining and trading company in Zoucheng City of Shandong Province. In addition to coal-related business, the Company also engages in heating supply, limestone sales, and ecological agriculture business. In December 2024, Shandong Public Utility Industrial Development Co., Ltd. ("SPID") acquired 33% of the Company's shares by injecting 43.31% stake in Shandong Zhicheng Agricultural Development Group Co., Ltd., another LIIFC focusing on agricultural development in Zoucheng City. Moreover, to further optimize the industrial resource layout of state-owned enterprises, ZCUA injected the equity stakes of

Shandong Zoulu Asset Operation Co., Ltd. ("Zoulu Asset") into the Company in December 2024. These supports together increased the Company's business and capital strength, as well as diversified its business portfolio.

SPID is an important state-owned capital operating entity in Jining City, primarily engaged in public energy, transportation, and cultural tourism-related industrial businesses. After the equity transfer, the Finance Bureau of Zoucheng City Government remains the ultimate controller of the Company.

Exhibit 1. Revenue structure in 2024

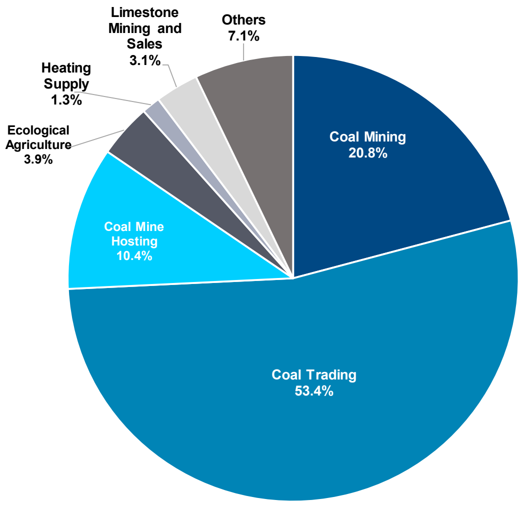
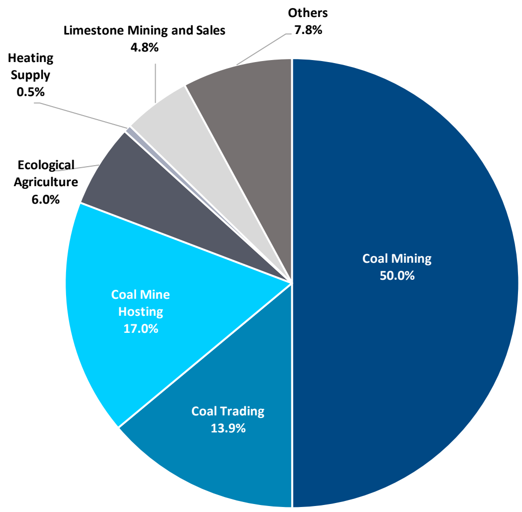
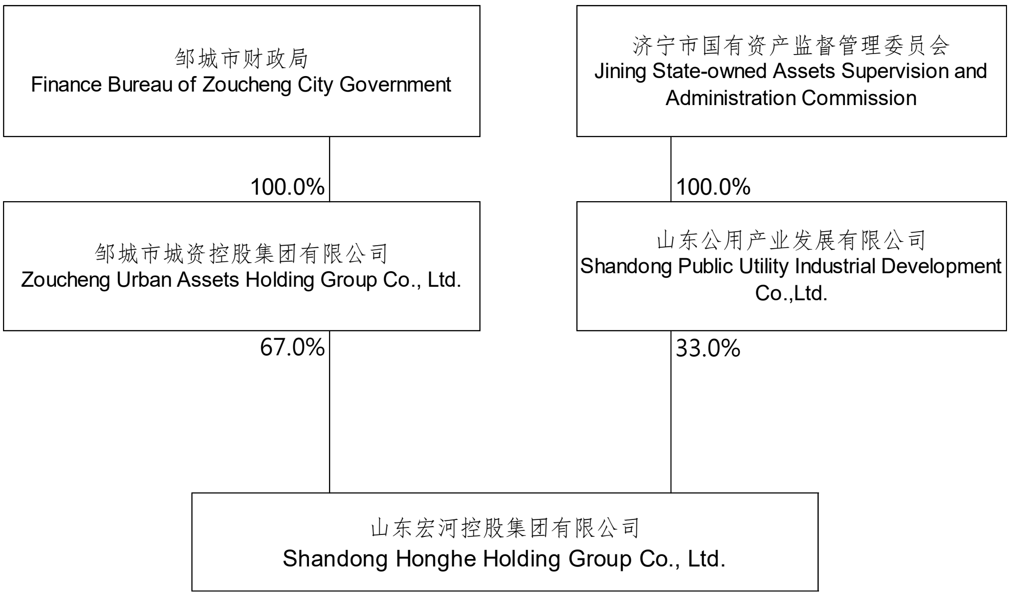


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Shareholding Chart as of 30 September 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Major coal mining company in Zoucheng City

SHHG is a major local state-owned enterprise (“SOE”) in Zoucheng City that mainly engages in the thermal coal business. It is recognized as an outstanding enterprise in the national coal industry and has been listed among the top 100 coal industry enterprises in China for multiple years. Another major coal mining company in Zoucheng City is Yankuang Energy Group Company Limited ("Yankuang Energy"), specializing in the production of thermal coal. Yankuang Energy is a subsidiary of Shandong Energy Group Co., Ltd., with its ultimate parent being the Shandong State-owned Assets Supervision and Administration Commission.

SHHG’s business exhibits a certain degree of diversification. Except for the Company’s main business of coal mining and trading, it also derives profits from coal mine hosting, limestone mining and sales, ecological agriculture, and heating supply businesses. However, it has a high geographic concentration in specific regions. The Company's current clients mainly consist of power plants in Shandong Province and surrounding coal chemical enterprises.

Earnings vulnerable to energy prices and industry policy adjustments

As a coal mining and trading company, SHHG’s earnings are subject to various factors such as seasonal demand changes, weather conditions, and energy policies.

In China, despite the government's recent policy for energy transition, coal remains the dominant source of energy consumption. Its downstream industries span a wide range of sectors, including power generation, steel production, cement manufacturing, and chemicals. Since 2025, the thermal coal market has experienced notable price volatility, driven primarily by a certain degree of supply-demand mismatch and the rapid expansion of renewable energy sources, such as hydropower, wind power, and solar photovoltaics.

In 2025, domestic coal prices exhibited a trend of initial decline followed by a rebound, with volatile recovery. The Qinhuangdao Port thermal coal price (5500 kcal, Shanxi origin) opened the first quarter of 2025 at around RMB700.0 per ton, before trending down to approximately RMB640.0 by mid-year, pressured by conventional post-winter demand weakness. In the second half of 2025, the circulation of thermal coal in the market became relatively tight as some mines in major coal-producing regions suspended operations for maintenance after completing their annual production targets. At the same time, coal policies and production quota tightening in major coal-importing countries (such as Indonesia) further intensified expectations of supply constraints. Therefore, the arrival of the summer peak coal demand season, combined with the build-up of coal reserve demand for the coming winter in the latter half of the year, created a certain degree of supply-demand mismatch in the market. This subsequently drove the price of thermal coal up to RMB840.0 per ton by October. Overall, we expect the thermal coal supply-demand balance to improve marginally in 2026, with average prices remaining largely stable.

Moreover, in November 2025, the National Development and Reform Commission issued a policy document concerning the signing and performance of medium- and long-term contracts for electricity coal supply guarantee. The document introduced significant adjustments to the long-term contract pricing method in major coal-producing regions, changing the previously relatively fixed prices to a more flexible monthly price adjustment mechanism. Starting from 2026, the long-term contract prices in production areas will be determined using a “base price + monthly floating” model, with the floating component based on the comprehensive monthly price index of major producing regions. Under this pricing mechanism, coal companies are expected to obtain reasonable market-oriented returns through stable long-term contract orders.

In addition, the recent tensions in the Middle East are likely to drive up international energy prices and shipping costs in the near future, further weakening the supply of imported thermal coal and causing its price to invert relative to domestic coal prices. As a result, amid ongoing market volatility, major coal enterprises could encounter significant headwinds, including compressed profit margins, mounting inventory pressures, and a potential weakening of their debt-servicing capacity. Furthermore, the continued growth of renewable energy will continue to suppress thermal coal prices in the long run.

Small scale of coal mining production and reserves

The Company has relatively low coal mining and recoverable reserves, and there is some uncertainty surrounding the construction of backup coal mines. The average annual coal mining of the Company slightly decreased from 1.5 million tons in 2023 to 1.4 million tons in 2024, maintaining at a relatively small scale compared to the industry average. The combined remaining recoverable reserves of the Company's two operating coal mines are relatively limited. As of 31 March 2025, the remaining tenor for exploration of Henghe Coalfield and Hongqi Coalfield were 9 years and 29 years, respectively. At the same time, the Company is actively advancing the mining work at the Xiaomeng Coalfield and is currently coordinating the relevant approval procedures with government authorities. However, the timeline for subsequent development has not yet been determined. In addition, the Company also plans to acquire a new coal mine within 2026, although the specific acquisition price is still under negotiation. As for the Pandian Coalfield, there are currently no specific mining plans. The cost per ton of coal production saw a modest decline from RMB296.3 in 2023 to RMB289.0 per ton in the first quarter of 2025, reflecting lower costs of labor and raw materials. This marginal decrease, however, has had a limited impact on the profitability of the coal mining business.

Exhibit 4. Production capacity and reserve coalfield as of 31 March 2025

In million tons	Actual output (2024)	Remaining recoverable reserves
Henghe Coalfield (In operation)	0.7	8.66
Hongqi Coalfield (In operation)	0.7	18.9
Xiaomeng Coalfield (Backup coalfield)	-	74.3
Pandian Coalfield (Backup coalfield)	-	46.4
Total	**1.4**	**148.3**

Source: Company information, CCXAP research.

Stable coal mining and trading business supported by solid and diversified demands

We assess the Company’s coal mining and trading business to be stable. The Company's primary sales regions are within Shandong Province. The downstream customers primarily consist of small and medium-sized coal trading companies, local power plants, and chemical plants. Supported by the strong downstream demands and agile business model, the Company is able to sell most of its coal extracted as reflected by its sustainably high proportion of products sold in the past few years. In line with the overall price downward momentum in the industry, the coal selling price from its self-owned coalfields slightly decreased from RMB702.3 per ton in 2023 to RMB666.3 per ton in the first quarter of 2025. Nevertheless, the gross margin of the coal mining business remained high, recording 57.1% and 56.8% in 2024 and the first three quarters of 2025, respectively.

Trading business is the largest contributor to the Company’s revenue, of which coal trading accounted for around 70% of the segment revenue in 2024. Other trade categories are mainly building materials, industrial materials, and mechanical and electrical equipment. By utilizing its resource channel advantages and regional significance, the Company consolidates downstream customers' demands for coal quantity and quality. This enables the Company to secure supply through bulk purchasing at prices below prevailing market levels. We assess the risk of this segment to be relatively low, as its demand-driven procurement strategy helps avoid excessive inventory accumulation and additional storage costs. Meanwhile, the concentration in downstream customers has been increasing over the years, and we believe the concentration risks on upstream suppliers and downstream customers are now at a moderate level. In 2024, the Company’s top 5 suppliers accounted for 48.0% of the total procurement amount while the top 5 customers accounted for 41.7% of the total sales revenue.

In the first three quarters of 2025, the coal trading business recorded a revenue of RMB2.1 billion while the coal mining segment recorded a revenue of RMB872.1 million, implying that the Company relies more on coal procurement rather than self-owned coalfield to boost overall revenue. As a result, we assess the Company’s reliance on raw material procurement to be relatively high. Besides, though being the largest revenue contributor, the trading business only contributed 13.9% of the total gross profit in 2024 due to a relatively low bargaining position with downstream customers.

In addition to traditional coal mining and trading business, the Company also conducts coal mine hosting business. The business model is that the Company primarily provides technical and managerial support without having ownership of the coal mine or control over the products. The managerial support by the Company includes personnel training, construction planning, safety management, and coal sales. As a value-added service, the gross margin of coalfield hosting is relatively high as compared to other segments of the Company. This business segment generated RMB480.3 million of revenue in 2024, with a gross profit margin of 38.9%, providing decent supplementary income to the Company. In the first three quarters of 2025, the business segment recorded RMB389.3 million of revenue, with a gross profit margin around 26.8%. As of 30 September 2025, the Company had one coal mine under management, with an annual production capacity of 1.2 million tons. However, the coal mine currently under the Company’s management has completed its sale and delivery through a public market auction in March 2026. The Company is currently in negotiations with a new buyer regarding the coal mine management matters.

Supplementary income from other businesses

Apart from its coal operations, the Company is also involved in other non-coal segments, including ecological agriculture, heating supply, and limestone mining and sales. These businesses currently contribute a moderate portion to the Company's overall revenue and profits. In 2024, non-coal businesses’ revenue decreased from RMB1.4 billion in 2023 to RMB608.9 million, accounting for 13.1% of total revenue. This figure further decreased to RMB263.7 million in the first three quarters of 2025, representing 7.0% of total revenue. The primary reasons for the decline in non-coal business revenue are the spin-offs of several subsidiaries engaged in heating supply, limestone mining and sales in 2024. Moreover, after the spin-offs, the Company will not engage in heating supply and limestone mining and sales businesses in the short-run.

The ecological agriculture business, which produces yeast, seasoning powder, and feed products through microbial fermentation, now has limited sustainability. This is primarily because its 15,000-ton annual capacity yeast manufacturing facility was transferred to Angel Yeast (Ji Ning) Pte Ltd. in 2021, effectively removing the Company's core production asset in this segment. Moreover, the future development of the current project (Phase II project of Saint Qi Modern Agricultural Biotechnology Park) faces uncertainty, as the investment has been suspended. As of end-2024, this project has a total investment amount of RMB1.0 billion, and an uninvested amount of RMB0.5 billion. The Company is expected to generate revenue from product sales upon the project completion.

Financial Profile

Relatively high profitability level with moderate revenue scale

The total revenue of SHHG dropped from RMB5.0 billion in 2023 to RMB4.5 billion in 2024, due to the decreased coal trading business and the suspension of property development business. Its EBIT margin increased from 15.1% in 2023 to 17.5% in 2024. Meanwhile, the Company’s asset yield is relatively low, its return on assets was 3.8% in 2024, which is lower by 1.6% as compared to 2023. The decline in the return on assets is primarily due to the significant increase in the Company's total asset base following the local government's transfer of equity in Zoulu Asset to the Company in 2024, which consequently diluted the return on assets.

In 2024, the Company’s coal business maintained solid gross margins: 6.2% for trading, 57.1% for mining, and 38.9% for coalfield hosting. The overall gross margin experienced a marginal decline from 23.9% in 2023 to 23.8% in 2024, primarily attributable to an increase in operating costs. Nonetheless, profitability is considered to remain at a relatively high level, underpinned by the stability of the Company’s coal production and sales. In the first three quarters of 2025, the Company’s gross margin decreased to 21.6%, primarily due to higher costs in its coal mine hosting and trading businesses.

Increased debt burden and moderate debt servicing capacity

The Company experienced rapid debt growth driven by its fast business expansion. Its total debt increased from RMB7.1 billion at end-2023 to RMB10.0 billion as of 30 September 2025. However, its total capitalization ratio declined from 49.2% to 39.7% over the same period, indicating a moderate leverage level. This decline was partly supported by SPID’s equity investment and the injection of Zoulu Asset in 2024, which helped offset the increase in absolute debt.

Moreover, the Company has actively improved its debt structure since 2023. Its short-term debt to total debt ratio declined from 50.6% in 2023 to 37.6% as of end-September 2025, reflecting a significant improvement in maturity profile. This shift was driven by the repayment of short-term borrowings and an increase in long-term borrowings, which consequently led to a rise in total debt.

Despite the Company's active debt management, its debt servicing capacity remained at a moderate level in 2024. Its EBIT/interest expense ratio stood at 1.6x, indicating that operating profit provides modest coverage to financing costs. The total debt to EBITDA ratio rose to 9.3x in 2024 from 7.0x in 2023, reflecting an increased debt burden. Moreover, the Company's CFO to total debt ratio was approximately 8.1% in 2024, pointing to limited free cash flow available for debt repayment.

Moderate liquidity profile mitigated by diversified funding channels

As of 30 September 2025, the Company had total bank credit lines of RMB2.8 billion, with an unused portion of only RMB133.7 million, indicating relatively low standby liquidity. In terms of financing structure, approximately 68.0% of its interest-bearing debt consisted of bond financing as of the same date. The heavy reliance on bonds exposes the Company to capital market risks, including market volatility and foreign exchange rate fluctuations. Encouragingly, the Company has been actively optimizing its debt structure since 2024 by issuing both onshore and offshore medium- to long-term bonds. From January 2025 to March 2026, it issued six tranches of onshore bonds, raising approximately RMB2.3 billion at coupon rates ranging from 2.65% to 4.97%. It also expanded into the offshore bond market, completing one issuance of RMB379.3 million at a coupon rate of 6.95%.

Moreover, the Company maintains minimal exposure to non-standard financing, which accounted for around 5% of total debt as of end-September 2025.

Benefiting from the local government's equity transfer and the accumulation of profits from its own operations, the Company's net assets have continued to grow in recent years. However, the Company's asset liquidity remains at a moderate level, with its primary assets consisting of inventory, accounts receivable, construction in progress, and long-term equity investments, which collectively accounted for approximately 46.1% of its total assets as of 30 September 2025. These are mainly comprised of receivables from downstream customers in its coal trading business, equity stakes in other local SOEs, and the industrial project currently under construction, which all have relatively low liquidity. The Company has pledged certain assets for loans, resulting in restricted assets of RMB2.4 billion as of 30 September 2025, accounting for approximately 9.2% of its total assets.

Furthermore, the Company faces a certain degree of contingent liability risk, as its external guarantees amounted to RMB3.0 billion as of end-September 2025, representing approximately 20.0% of its net assets. All guarantees were provided to other local state-owned enterprises, and the associated risks are considered controllable. However, in the event of a credit default, the Company could be exposed to cross-default and credit contagion risks related to these guarantees. Overall, the Company's liquidity profile is, to a certain extent, constrained by its asset liquidity and external guarantees, thereby potentially reducing its financial flexibility in the future.

External Support

Strategic importance to its parent and the local government

As the core subsidiary of ZCUA, the Company has a high likelihood of receiving strong support from ZCUA and Zoucheng Municipal Government when necessary.

The Company is the only subsidiary engaging in coal mining and trading business under ZCUA. The financial impact of SHHG's default is material. In the first three quarters of 2025, SHHG recorded a revenue of RMB3.7 billion, accounting for over 50.0% of ZCUA's revenue over the same period. Additionally, the after-tax profit of SHHG was RMB226.0 million while that of ZCUA was RMB239.0 million. Hence, the Company is a unique subsidiary and a key contributor to the ZCUA's profitability.

ZCUA has provided aggregate guarantees of approximately RMB1.5 billion to SHHG and its subsidiaries. Additionally, the offshore bonds issued by ZCUA (with a total outstanding amount equivalent to USD726 million) contain cross-default clauses. We believe that should a credit event occur at SHHG, the probability of default on ZCUA's offshore debt could rise significantly. Furthermore, the Company's shareholder, SPID, also provides guarantees for its onshore bond issuances through its major subsidiary. As of 18 March 2026, approximately RMB580.0 million of the Company's MTNs were under guarantee by SPID.

The Zoucheng Municipal Government has provided strong support to SHHG through preferential policies and direct subsidies. Notably, it has facilitated the relocation of Xingcun in the Honghe Mining Area, coordinated cooperation between Honghe Group and Yankuang Energy, and injected ZouLu Asset to help contain SHHG's leverage level. Given this sustained backing, we believe the Company will remain a key local SOE and is unlikely to lose its strategic position over the next 12 to 18 months.

ESG Considerations

SHHG is exposed to environmental risks through the operation of its coal mining projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during production operation.

As a major state-owned coal enterprise in Zoucheng City, SHHG plays a significant role in fulling industrial policy functions and bears certain responsibilities for local employment. Its contribution to the development of the local industrial economy and its commitment to social responsibilities ultimately influence the government's willing to provide support.

SHHG's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, 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 Mining Industry (December 2017).

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