Credit Opinion

6 August 2026

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

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Shandong Zhicheng Agricultural Development Co., Ltd.

Surveillance credit rating report

CCXAP affirms long-term credit rating of BBB_g- of Shandong Zhicheng Agricultural Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Shandong Zhicheng Agricultural Development Co., Ltd. ("SDZC" or the "Company") reflects the Company's (1) strong regional competitiveness in markets for agriculture-related operations.

However, the rating is constrained by the Company's (1) moderate revenue scale with low yield on assets; and (2) weak credit metrics along with fair sources of funding.

The rating also reflects a high likelihood of support from the Zoucheng Municipal Government when needed, which is based on the Company's (1) direct ownership and ultimate control by the Zoucheng Municipal Government; (2) regional importance in rural revitalization and agricultural development in Zoucheng City; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

The stable outlook on SDZC rating reflects our expectation that the Company will maintain its regional competitiveness and importance in agricultural development in Zoucheng City over the next 12-18 months. We also expect the Company will continue to receive solid support from the local government.

Rating Drivers

- Strong regional competitiveness in markets for agriculture-related operations
- Supplemental income sources but limited by the small operational scale
- Increased financial leverage due to asset transfer and changes in accounting standards
- Moderate revenue scale with low yield on assets
- Weak credit metrics along with fair sources of funding
- High likelihood of support from the Zoucheng Municipal Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government support for the Company improves; or (2) the Company's stand-alone credit profile improves significant, such as improvement in asset profitability and debt servicing capability.

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 financial leverage and liquidity position.

Key Indicators

	2023FY	2024FY	2025FY	2026Q1
Total Assets (RMB billion)	11.0	8.2	8.6	9.0
Total Equity (RMB billion)	8.1	3.1	3.1	3.1
Total Revenue (RMB million)	361.1	123.2	145.5	60.3
Net Profit (RMB million)	71.0	20.8	22.6	5.1
EBIT Margin (%)	35.7	55.0	70.3	45.1
Return on Assets (%)	1.7	0.7	1.2	-
Total Debt/Total Capital (%)	24.8	56.3	60.9	62.4
Total Debt/EBITDA (x)	17.8	31.3	29.1	-
EBITDA/Interest (x)	1.7	0.9	0.8	-
FFO/Total debt (%)	-0.1	-0.1	-0.1	-

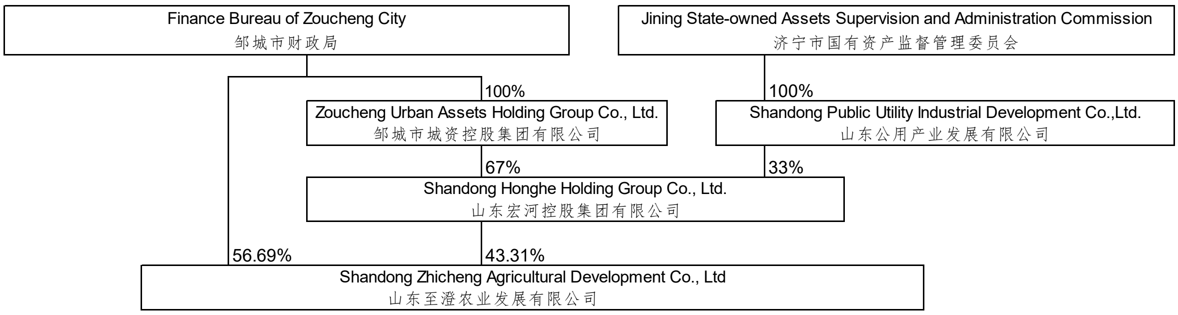
All ratios and figures are calculated using CCXAP's adjustments. Indicators marked with "-" are not applicable or not comparable.

Source: Company data, CCXAP research

Corporate Profile

Established in January 2018, SDZC is a key local state-owned enterprise ("SOE") mainly operating in Zoucheng City, a county-level city in Jining City. The Company is positioned as a key entity in rural revitalization and agricultural development in Zoucheng City, with different business scopes covering agriculture-related trade, storage, infrastructure construction and industrialization, along with other businesses including land consolidation, and leasing. In December 2024, Finance Bureau of Zoucheng City transferred its 43.31% equity stake in the Company to a local state-owned enterprise("SOE"), Shandong Honghe Holding Group Co., Ltd. In June 2025, due to government planning, four subsidiaries were carved out from the Company, and the Company discontinued its real estate business. As of 31 March 2026, Finance Bureau of Zoucheng City was the ultimate controller of SDZC.

Exhibit 1. Shareholding chart as of 31 March 2026



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2025

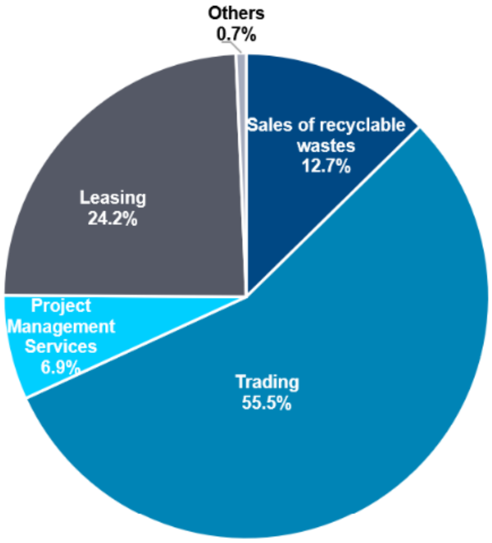
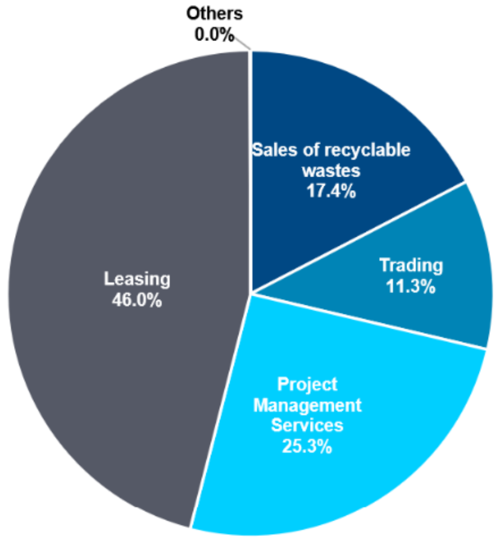


Exhibit 3. Gross profit structure in 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Strong regional competitiveness in markets for agriculture-related operations

SDZC is one of the key SOEs in Zoucheng City and focuses on agricultural development, including grain and oil trading and reserves, agricultural industrial park construction, and agricultural infrastructure development, with a certain degree of regional exclusivity. The Company has strong regional competitiveness and stable market shares in those sectors by the support of local government.

The Company operates in trading and reserves business, mainly grain, edible oils, and other products. This segment is growing consistently and represents a major source of revenue. As Zoucheng City's key grain reserves operator, the Company manages Jining municipal grain and edible oil reserves, minimum purchase price grain reserves, and central grain reserves under the government's entrustment. In compliance with policies, the Company follows a strict three-year rotation system, selling aged reserves while replenishing new stocks. In 2025, SDZC realized RMB50.9 million in sales of wheat, oil and other agricultural products with a gross profit margin of -3.3%, mainly due to the increase in purchase costs driven by rising grain and oil prices. Moreover, the Company is exposed to concentration risk in this business, as the top 5 customers accounted for 86.1% of the Company's sales volume in 2025. However, the government provides subsidies for both grain storage operations and price differentials during rotation sales. In 2025, the Company received government subsidies totaling RMB16.6 million for this business.

In 2025, the Company expanded into the raw water sales business. The Company had acquired the 30-year concession rights for the Zoucheng Xiwei Reservoir with auction in 2024 for approximately RMB800.0 million, supplying raw water to Zoucheng Public Water Services Co., Ltd. This business is expected to generate a stable revenue for the Company. In 2025, the segment recorded revenue of RMB29.8 million, with a gross profit margin of approximately 19.9%.

Apart from trading, SDZC promotes agricultural industrial development in Zoucheng City by participating in agricultural industrial park construction and operation, and mainly achieved financial balance through rental income or asset sales upon project completion. As of end-2025, the Company has 2 projects under construction, with a total investment of RMB947.0 million, and an outstanding amount of RMB561.0 million. Among them, several completed industrial park projects have commenced rental operations, including the Strawberry Demonstration Park, Sands Industrial Park, Mushroom Town Industrial Park, and Hengxin Biotechnology Factory Building. These projects achieved full occupancy as of end-2025, with rental income of RMB35.2 million in 2025, with a relatively high gross profit margin of around 49.3%

The Company also participates in agricultural infrastructure construction, primarily through an agency construction model. Under this model, it is commissioned by clients to undertake urban construction projects, funded jointly by the clients and the Company's self-raised capital. During construction, the Company receives payments from clients based on actual costs plus a markup. However, the exact percentage of the markup remains undetermined. As of 31 December 2025, the Company had 5 projects under construction with a total planned investment of RMB1.2 billion and an outstanding investment of RMB973.7 million. Revenue recognition is still pending as all these projects are incomplete. Meanwhile, the Company had 3 infrastructure projects under planning as of end-2025, with total planned investment of RMB1.2 billion.

SDZC is commissioned by the local government to undertake land consolidation projects across Zoucheng City's townships. The Company partners with a private firm, Shandong Liguo Jinxiu Urban Development and Construction Co., Ltd ("Liguo Jinxiu"), where SDZC handles fundraising while Liguo Jinxiu executes the consolidation. Post-consolidation, surplus land quotas are sold to Zoucheng City Natural Resources and Planning Bureau to balance funding, with revenue shared between SDZC and Liguo Jinxiu at a 7:3 ratio. As of 31 March 2026, SDZC had consolidated 3.4 thousand mu of land with a total investment of RMB137.0 million, recognizing revenue of RMB222.0 million, while payment receipts amounted to RMB404.6 million upon project completion. However, this business exhibits delayed payment collections and remains highly sensitive to land market fluctuations and government policy changes.

Supplemental income sources but limited by the small operational scale

As authorized by the local government, the Company is the sole entity in Zoucheng City to conduct the sales of recyclable wastes. The recyclable waste sales primarily involve river sand and gravel resources extracted from property and river management projects. SDZC sells the materials through public bidding, with customers determining the contract price based on appraised project value. Upon revenue collection, the Company shares 30% of the proceeds with the local government. This business is highly susceptible to market conditions, with revenue increasing to RMB18.4 million in 2025. At the same time, the business maintained a gross margin of approximately 35.7%. The Company will hold the franchise rights until 2038, which is expected to generate relatively stable revenue in the future.

The Company also operates leasing business, with assets primarily acquired through self-construction or government capital injections. As at the end of 2025, SDZC held 6 rental properties, achieving an overall occupancy rate of around 98%, with annual rental income amounting to RMB2.7 million. The tenant base primarily consists of government entities and local SOEs. In 2025, the gross profit margin of this business dropped sharply to -165.5%, primarily due to land transfer fee payments of approximately RMB6.0 million for the Sihe floodplain. Under the agreement with the government, these annual fees took effect in 2025 following a four-year exemption period. Considering this ongoing financial obligation, the future profitability of this business segment requires continued attention.

Following the divestment of its subsidiary, Shandong Zhicheng Real Estate Development Co., Ltd., the Company no longer engaged in the real estate business in 2025.

Financial Profile

Increased financial leverage due to asset transfer and changes in accounting standards

Due to the expansion of its business scope and large capital expenditure on the construction development projects, SDZC's total debt increased rapidly from 2022 onwards. As of 31 March 2026, the Company reported total debt of RMB5.2 billion, a rapid increase from RMB4.0 billion at the end of 2024. Meanwhile, the company’s total equity decreased significantly due to the divestment of four subsidiaries and high-standard farmland at the end of 2024 and in 2025, respectively, alongside adjustments in accounting standards. This led to a sharp increase in the capitalization leverage ratio, measured by total debt to total capital, which was 62.4% as of 31 March 2026. Despite the increasing debt burden, SDZC had reasonable debt structure, with its short-term debt to total debt ratio being 29.7% and a cash to short-term debt ratio of 0.9x at the same date. The Company has pledged RMB1.3 billion of assets for loans at the same time, accounting for 14.9% of total assets, and this may reduce its financial flexibility.

Moderate revenue scale with low yield on assets

The Company recognized a total revenue of RMB145.5 million in 2025, with a year-on-year (“YoY”) increase of 18.1%. The trading business, including agricultural products and raw water sales, is the main contributor to SDZC’s revenue, accounting for 55.5% of its total revenue. This was followed by leasing (24.2%), recyclable wastes sales (12.7%) and project management service (mainly land consolidation projects) (7.0%). However, the Company’s EBIT margin increased significantly to 70.3% in 2025, mainly due to changes in accounting standards. However, SDZC’s return on assets remained relatively low at 1.2%. The low return on assets primarily due to the Company's substantial non-income-generating assets. Although some low-yielding assets were derecognized in 2025, the Company still holds a large volume of non-revenue-generating or low-yield assets. As of the end-2025, the Company’s inventories (primarily development costs of infrastructure construction projects), other equity instrument investments, fixed assets, and construction in progress accounted for 60.4% of total assets, while generating very limited returns.

Weak credit metrics along with fair sources of funding

SDZC’s stand-alone debt servicing metrics are weak given its moderate profitability. The Company's 3-year average EBITDA coverage ratio (EBITDA/interest expense) was around 0.93x and the average total debt/EBITDA ratio was around 32.0x. Due to the deconsolidation of subsidiaries, SDZC’s cash-to-revenue ratio stood at a moderate level of 0.6x in 2025. Meanwhile, its FFO/total debt ratio decreased to -0.1% in 2025 due to the ongoing investment in project construction. Moreover, as of 31 December 2025, the Company had 7 infrastructure construction and self-constructed projects that were under construction, with a total investment of RMB2.1 billion, and an unsettled amount of RMB1.5 billion. Considering its business expansion, its debt scale may further increase in the future. Meanwhile, the Company's access to financing is moderate, with bank borrowing and non-standard financing products. Bank loans accounted for majority of the total debt, representing around 71.9%. As of end-2025, the Company's total bank facilities amounted to RMB6.0 billion, with RMB2.2 billion remaining undrawn, representing relatively limited standby liquidity. Meanwhile, the Company has certain exposure to non-standard financing which usually shows high financing costs, accounting for less than 10% of its total debt.

External Support

High likelihood of receiving support from the Zoucheng Municipal Government

We believe SDZC has a high possibility of receiving the support from the local government in times of need. This expectation incorporates our considerations of the Company's (1) direct ownership and ultimate control by the Zoucheng Municipal Government; (2) regional importance in state-owned asset operation and industrial development in Zoucheng City; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

Zoucheng City has developed "1+5" pillar industries including digital economy, intelligent equipment manufacturing, high-end green chemicals, new energy and new materials, health medicine, and industrial robots, stimulating Zoucheng City's economic growth in recent years. Zoucheng City is the largest county/district in Jining City by GRP. It had a GRP of RMB112.9 billion in 2025, accounting for the GRP of 18.4% of Jining City. In 2025, its general budgetary revenue increased by 4.0% YoY to RMB10.0 billion, of which tax revenue accounted for 53.3% of its general budgetary revenue, indicating relatively good fiscal quality. Meanwhile, Zoucheng City Government has good financial self-sufficiency with average fiscal balance ratios around 100.6% over the past three years.

Since SDZC's establishment, the local government transferred various state-owned equity and assets to the Company, broadening its business scope as well as enhancing operating and capital strength. In 2023, the government designated the Company as the exclusive entity for local recyclable waste sales. As of end-2025, the Company maintained capital reserve of approximately RMB2.4 billion and paid-in capital of RMB647.5 million, providing support to its capital structure. Moreover, the local government injected cash of RMB16.6 million as paid-in capital to the Company in 2025, further enhancing the Company's capital strength. SDZC is also responsible for policy-oriented grain storage that guarantee food supply in Zoucheng City. In 2025, the Company received financial subsidies totaling RMB16.6 million to support its grain reserve business due to the public welfare nature.

Due to the Company's involvement in agricultural infrastructure projects, it has also received special government bonds over the past few years. In 2025, the Company received government special bonds amounted to RMB213.4 million for supporting its investment in construction projects, lowering the funding cost. Overall, the solid track record of government support indicates the government's strong propensity to support the Company in the future.

ESG Considerations

The Company is subject to environmental regulations governing emissions, waste management, and ecological protection issued by national and local authorities. As an entity involved in agricultural industrial park construction, it faces environmental risks associated with its activities. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

SDZC also faces social risks given its role in agriculture-related trade, storage, construction and industrialization. Demographic changes, public awareness and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company.

Governance factors are central to the Company's operations due to its status as a local government-related entity. SDZC is directly owned and ultimately controlled by the Zoucheng Municipal Government. The Company follows government-guided corporate governance practices, regularly reports to state-owned asset regulators, and aligns its strategic investments with municipal development plans. Its governance structure and oversight mechanisms help ensure operational transparency and policy compliance.

Rating Methodology

The methodology used in this rating is the Rating Methodology for General Corporate (May 2026).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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