

Credit Opinion

6 September 2024

Ratings	
Senior Unsecured Debt Rating	BBB _g -
Long-Term Credit Rating	BBB _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Guocheng (Zhejiang) Industrial Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Guocheng (Zhejiang) Industrial Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Guocheng (Zhejiang) Industrial Development Co., Ltd. ("GZID" or the "Company") is underpinned by the Company's (1) status as the important industrial investment entity in Anji Economic and Development Zone ("Anji EDZ"); and (2) good market position in property leasing and equity investment.

However, the rating is also constrained by the Company's (1) small revenue scale and moderate profitability, with uncertainty in equity investment return; and (2) increasing debt burden and modest credit metrics.

The rating also reflects GZID's high likelihood of receiving support from its parent, Zhejiang Liangshan Hi-tech Holding Group Co., Ltd. ("ZLHH"), given its strong parent-subsidary linkage with ZLHH. It also reflects a high likelihood of receiving support from Anji EDZ Management Committee, given its (1) ultimate ownership and control by the local government; (2) status as important industrial investment entity in Anji EDZ; and (3) track record of receiving government support.

The stable outlook on GZID's rating reflects our expectation that the Company will maintain regional competitiveness in industrial investment and property leasing business in Anji EDZ. We also expect that as a local state-owned enterprise, the Company will receive ongoing support from the local government and its shareholders.

Rating Drivers

- Important industrial investment entity in Anji EDZ, with good market position in property leasing and equity investment
- Uncertain in equity investment return, with large investment scale and long payback period
- Small revenue scale and moderate profitability, with limited revenue resources
- Increasing debt burden, with high short-term repayment pressure
- Modest credit profile
- Proven record of receiving government support and shareholder support

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

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

Key Indicators

	2021FY	2022FY	2023FY
Total Assets (RMB billion)	4.5	5.2	8.7
Total Equity (RMB billion)	3.8	4.7	6.0
Total Revenue (RMB billion)	0.1	0.1	0.1
Net Profits (RMB million)	10.5	25.9	18.7
EBIT Margin (%)	27.1	32.8	60.7
Return on Assets (%)	0.7	0.8	1.2
Total Debt/Total Capital (%)	14.1	8.0	30.4
Total Debt/EBITDA (x)	11.0	6.1	23.8
EBITDA/Interest (x)	3.0	4.5	1.8
FFO/Total debt (%)	16.6	28.1	4.8

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

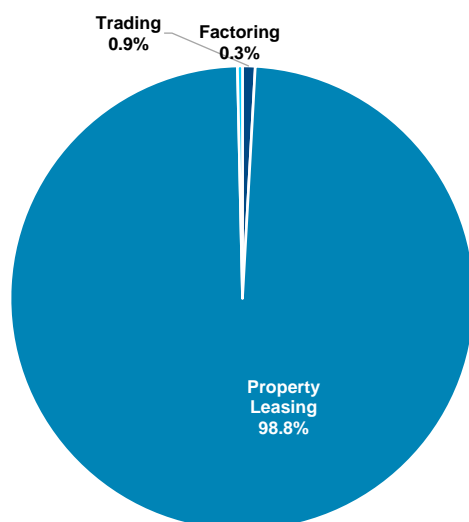
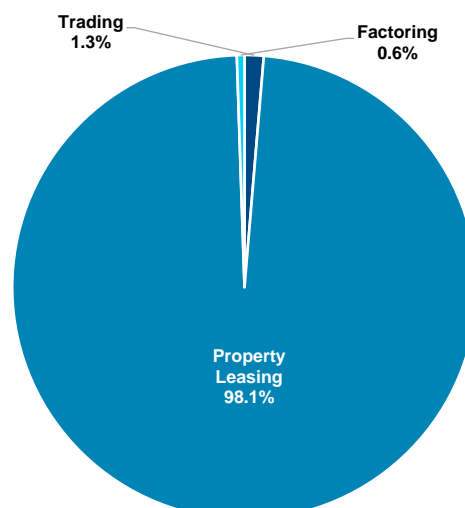
Source: Company information, CCXAP research

Corporate Profile

Founded in 2009, GZID is an important state-owned industrial investment entity in Anji EDZ, which carries out equity investment and property leasing. Besides, the Company also conducts trading and provides factoring services in the region. As of 31 March 2024, Zhejiang Liangshan Intelligent Control Technology Industry Investment Group Co., Ltd. directly held 100% of the Company's shares and Anji EDZ Management Committee was its ultimate controller.

Exhibit 1. Shareholding chart as of 31 March 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023**Exhibit 3. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations**Business Profile**

Important industrial investment entity in Anji EDZ, with good market position in property leasing and equity investment

Anji EDZ was established in 1992 and upgraded to provincial Economic Development Zone in 1994. Anji EDZ has formed three core industrial parks, including high-tech, education and green homeware. Besides, Anji EDZ

has formed four pillar industries, including green homeware, healthcare, equipment manufacturing and information technology.

GZID is an important state-owned industrial investment entity in Anji EDZ, mainly responsible for investment attraction, equity investment, and asset operation in the region. Aligned with the local industrial development plans, the Company primarily participates in equity investment and property leasing in Anji EDZ, making large contributions to local industrial development.

GZID's equity investment business mainly involves establishing equity funds. The Company's equity investment focuses on four emerging industries in Anji EDZ, including healthcare, information technology, equipment manufacturing and new materials. As of 31 March 2024, acting as LP, GZID had participated in 29 funds, with total investment of RMB19.6 billion, with invested amounts of RMB5.8 billion, indicating large capital pressure. Besides, due to the short-time operation of equity investment, the investment return is low, amounting to only RMB19.3 thousand in 2023. Furthermore, GZID typically has an investment period of 3-4 years, with maximum duration of 5 years. The Company generates investment profits from its equity investments primarily through sale after an initial public offering or repurchase by the invested companies. Although these types of investments expose the Company to certain investment risks, they are policy-driven to promote regional industrial development.

Besides, GZID also conducts property leasing and construction business in Anji EDZ. The local government transferred two industrial parks to the Company in 2023 and GZID leases the plants to the companies settled in Anji EDZ. As of 31 March 2024, GZID has total leasable area of about 141,317 square meters, with full occupancy. The Company achieved total revenue from property leasing business of RMB134.1 million in 2023, with high profit margin of 65.7%. GZID has started industrial plants construction business since 2023. The Company will firstly sign contracts with the related enterprises, and then construct the industrial plants using self-raised funds. After completion, the related enterprises will repurchase the industrial plants with mark-up of 6% to 8%. As of 31 March 2024, the Company had 2 projects under planning, with total investment of RMB800.0 million, exerting certain capital pressure.

Supplementary revenue from other businesses

Apart from equity investment and property leasing businesses, GZID has participated in other businesses, such as trading and factoring, which can diversify its business risks and provide supplementary revenue. The Company also plans to engage in operations of charging piles and parking lots to further broaden its business mix.

GZID has been conducting trading business through its subsidiary since 2022, with trading products focusing on beef, corn, sugar, rice. The Company purchases products from suppliers and then sells to customers. However, the Company has high reliance on top 5 suppliers and top 5 customers, with both purchase from top 5 suppliers and sales to top 5 customers accounting for over 90% of total purchase and total sales. In 2023, trading business achieved revenue of RMB1.2 million.

Besides, GZID also engages in factoring business in the region, but the business scale is small. As of 31 December 2023, the Company only had 3 customers for factoring business, with total amounts of RMB75.0 million. The Company has taken careful due diligence measures before conducting business and several risk management measures to reduce business risks.

Financial Profile

Small revenue scale and moderate profitability, with uncertainty in equity investment return

Since most of its businesses has only started in recent years, GZID's operating income is relatively small. The Company's revenue increased from RMB110.0 million in 2021 to RMB135.8 million in 2023. In terms of the business segment, in 2023, property leasing business accounted for 98.8% of total revenue, followed by trading (0.9%) and factoring (0.3%).

GZID's profitability is moderate, as reflected by the high EBIT margin and the low return on total assets. Supported by high gross profit margin of property leasing business, the Company EBIT margin reached 60.7% in 2023. However, due to the low return on the equity investments, the Company's return on total assets is low, averaging at 0.9% from 2021 to 2023. Given uncertainty in equity investment return, we expect the Company's profitability will remain modest in the next 12 to 18 months.

Increasing debt burden and modest credit metrics

With large capital expenditure incurred from the equity investment and industrial plant construction, GZID's debt burden has been increasing in recent years. Its adjusted total debt rose from RMB625.7 million at end-2021 to RMB2.6 billion at end-2023, with total capitalization ratio of 30.4%. Besides, the Company has certain short-term repayment pressure. The Company's short-term debt accounted for 28.1% of total debt at end-2023. Furthermore, the Company reported cash reserves of RMB318.6 million at end-2023, insufficient to cover its short-term debt of RMB740.4 million.

GZID has modest stand-alone credit profile. As the Company's debt burden and financing costs increased, its total debt/EBITDA ratio increased from 11.0x in 2021 to 23.8x in 2023 and EBITDA/total interest ratio decreased from 3.0x to 1.8x over the same period. In addition, the Company's funds from operation ("FFO") increased from RMB104.1 million in 2021 to RMB125.8 million in 2023, accounting for 4.8% of total debt at end-2023.

GZID's liquidity situation could be partially mitigated by its access to external financing channels. The Company mainly relies on bank loans for funding, accounting for about 72.7% of its total debt at end-2023. As of 31 March 2024, the Company obtained total credit facilities of RMB3.6 billion and undrawn credit facilities of RMB1.2 billion, indicating fair standby liquidity. However, the Company has certain amount of non-standard financing, accounting for about 20.5% of its total debt at end-2023. Due to the high funding demand from equity investments, the Company plans to broaden its financing channels to debt capital markets in the next 12-18 months.

External Support

GZID has high likelihood of receiving support from its parent, ZLHH, given its strong parent-subsidary linkage with ZLHH. It also reflects a high likelihood of receiving support from Anji EDZ Management Committee, given its (1) ultimate ownership and control by the local government; (2) status as important industrial investment entity in Anji EDZ; and (3) track record of receiving government support.

As an important industrial investment entity and largest SOE in Anji EDZ, ZLHH is responsible for industrial attraction, equity investment, asset management and tourism operation in the area, with high regional competence and status. GZID holds the majority of ZLHH's equity investment assets, demonstrating strong parent-subsidary linkage.

As an important industrial investment entity in Anji EDZ, the Company is ultimately controlled by Anji EDZ Management Committee. Besides, the Company has received support from the local government in terms of

capital injection and assets transfer. From 2021 to 2023, the local government has injected capital of RMB2.1 billion to the Company. In terms of assets transfer, in 2023, the local government transferred 100% equity interests of Anji Cannes Cultural and Creative Industry Development Co., Ltd. to the Company. Under the arrangement of the local government, Zhejiang Anji Guokong Construction Development Group Co., Ltd., an important local SOE in Anji County, provides guarantees for the Company's external financing.

Structural Consideration

GZID's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that support from both shareholder and government will flow through the Company considering its strong regional importance in industrial investment and property leasing, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

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