

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zouping Financial Development Group Co., Ltd.

HONG KONG, 9 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Zouping Financial Development Group Co., Ltd. (“ZFDG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Zouping City, Binzhou City (“Zouping government”) would provide very strong support to ZFDG if needed, in light of its direct full ownership of ZFDG, ZFDG’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Zouping City, Binzhou City (“Zouping”), and the linkage between the Zouping government and ZFDG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Zouping government may face significant negative impact on its reputation and financing activities if ZFDG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that ZFDG’s strategic importance would remain intact while the Zouping government will continue to ensure ZFDG’s stable operation.

Key Rating Rationales

Zouping Government’s Ownership and Supervision: The Zouping government directly holds the full ownership of ZFDG through the Zouping State-owned Assets Center (“Zouping SAMC”), and is the actual controller of the company. The Zouping government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Zouping government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Zouping and Strategic Alignment: ZFDG, as the most important LIDC in Zouping, is primarily responsible for infrastructure construction and operation of state-owned assets within the region with strong franchised advantages. The company undertakes most of the important municipal infrastructure projects in the region, and is responsible for the shantytown renovation, industrial park development and operation, gas and heat supply and land resource business within the region. ZFDG plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: ZFDG received operational and financial support from the government. ZFDG had received a total subsidy amount of c. RMB2.7 billion from 2020 to 2022, mainly including operating subsidies. The Zouping government continued to inject cash, equity and other assets into ZFDG to expand its asset size and diversify its business. Besides, the Zouping government provides policy supports to ZFDG to ensure its business operation. Given its franchised advantage as the sole entity for infrastructure construction in Zouping, ZFDG has an advantage in acquiring land resources and major projects. We believe ZFDG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

ZFDG's Financial Matrix and Liquidity Position: ZFDG's total assets showed a continuous growth trend in the past years and reached RMB38.3 billion at end-2022 mainly due to its inventories, which has steadily increased in tandem with the company's infrastructure construction projects. The current assets of ZFDG accounted for c. 46.3% of the total assets as of end-2022, and the overall assets were less liquid. ZFDG's financial leverage (total liabilities to total assets) was 39.3% and its adjusted debt increased to c. RMB11.7 billion at end-2022. The liquidity of ZFDG was sufficient. ZFDG had an unrestricted cash balance and unused credit facilities of c. RMB1.4 billion and RMB4.2 billion at end-September 2022, respectively, compared with its debt due within one year of c. RMB3.1 billion. Besides, ZFDG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Zouping: Zouping is a county-level city located in the south of the Binzhou City with a total land area of c. 1250 square kilometers. Zouping recorded an economic growth in 2022, achieving a GDP of c. RMB64.4 billion, with a year-on-year growth of 2.7%. The growth rate has slowed down compared to previous years due to the impact from COVID-19.

The aggregate fiscal revenue of the Zouping government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Zouping government reached c. RMB7.9 billion, with a year-on-year increase of 3%. Having said that, the tax revenue decreased due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income, which was mainly generated from land sales, increased to c. RMB3.9 billion in 2022 from c. RMB2.9 billion in 2021. The budget deficit of the Zouping government was c. 31.6% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Zouping government was relatively high. The special purpose debt constituted a high proportion of the total debt.

Rating Sensitivities

We would consider downgrading ZFDG's rating if (1) there is perceived weakening in support from the Zouping government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Zouping government's ownership of ZFDG, or (3) there is a downgrade in our internal credit assessment on the Zouping government.

We would consider upgrading ZFDG's rating if there is an upgrade in our internal credit assessment on the Zouping government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this ZFDG's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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