

Zouping Financial Development Group Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer of Zouping Financial Development Group Co., Ltd. (“ZFDG” or “the company”); Issuer Rating Outlook Stable

Summary

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.

Rating Rationale

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 received a total subsidy amount of RMB3.3 billion from 2020 to the first half of 2023, which was mainly 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

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 April 2024

Key Figures of Zouping and ZFDG (RMB billion)

Zouping	2022	2023
GDP	64.4	65.2
GDP growth rate (%)	2.7	3.5
Budgetary revenue	7.9	7.9
Government fund	3.9	3.5
Transfer payment	2.3	2.3
Budgetary expenditure	10.4	13.6
ZFDG	2022	2023.6
Assets	38.3	38.5
Equity	23.2	23.1
Revenue	2.1	0.8

Source: Public information, ZFDG and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

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 increased slightly to RMB38.5 billion at end-June 2023 from RMB38.3 billion at end-2022. ZFDG's assets mainly consisted of fixed assets, inventories, other receivables, construction in progress and other equity instrument investment. ZFDG's financial leverage (total liabilities to assets) increased slightly to 40.1% at end-June 2023 from 39.3% at end-2022. ZFDG's total adjusted debt increased to RMB11.6 billion at end-June 2023, with short-term debt accounting for 35.2% of the total debt.

The liquidity of ZFDG was moderately tight. At end-June 2023, ZFDG had a cash balance of RMB1.6 billion (including RMB0.5 billion of restricted cash), compared with its debt due within one year of RMB4.1 billion at the same time. Having said that, ZFDG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations. ZFDG has unused credit facilities of RMB4.2 billion at end-2022.

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 1,250 square kilometers. Zouping realized a GDP of RMB65.2 billion in 2023, representing a growth rate of 3.5%. The aggregate fiscal revenue of the Zouping government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Zouping government maintained steady and reached RMB7.9 billion with a year-on-year increase of 0.2% in 2023. The contribution of tax revenue to budgetary revenue stayed roughly flat at 64.7% in 2023 (compared with 63.4% in 2022). In addition, Zouping's government fund income, which was mainly generated from land sales, decreased to RMB3.5 billion in 2023 from RMB3.9 billion in 2022.

The budget deficit of the Zouping government increased to 71.4% in 2023 from 31.6% in 2022, due to the higher budgetary expenditure. The debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Zouping government was high, which was mainly due to the increase in special purpose 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.

Company Profile

ZFDG was established in 2019 with an initial registered capital of RMB50 million. In October 2022, Zouping completed the restructuring of the regional LIDCs. At end-2023, ZFDG had a shareholding structure in which the Zouping SAMC, as the controlling shareholder, held 100% of the company's equity.

ZFDG, as the most important LIDC in Zouping, is primarily responsible for infrastructure construction and operation of state-owned assets within the region. 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.



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