

CCXAP assigns first-time A_g- rating to Nantong Coastal Development Co., Ltd, with stable outlook

Hong Kong, 29 December 2021 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time A_g- long-term credit rating to Nantong Coastal Development Co., Ltd (“NTCD” or the “Company”), with stable outlook.

The A_g- long-term credit rating of NTCD is underpinned by (1) the strong operating environment of Nantong City with robust economic growth; (2) NTCD’s key role in infrastructure construction in Nantong City, especially for Tongzhou Bay Demonstration District (“Tongzhou Bay”) and Pingchao High-speed Rail New Town (“Pingchao New Town”); and (3) the Company’s high-quality leasing assets.

However, the rating is constrained by the Company’s (1) cash collection on infrastructure projects that is susceptible to volatility in the local property market; (2) large capital expenditure needs that lead to fast-growing debt; and (3) high level of external guarantees.

The rating also incorporates our expectation that NTCD has a high likelihood of receiving support from the Nantong Municipal Government in times of need, given the Company’s (1) strategic position in regional infrastructure construction in Nantong City; (2) close relationship with the local government; and (3) strong track record of receiving government support.

Corporate Profile

Founded in 2012, NTCD is one of the major infrastructure constructors and city operators in Nantong City, particularly in Tongzhou Bay and Pingchao New Town. It is wholly owned by the State-owned Assets Supervision and Administration Commission of Nantong Municipal Government (“Nantong SASAC”), with paid-in capital of RMB5.6 billion. NTCD was an all-around city operator in Nantong City, with business coverage from infrastructure construction, education and tourism to real estate development, financial services, and trade businesses.

Rating Rationale

Credit Strengths

Strong operating environment of Nantong City with robust economic growth. Nantong’s GRP reached over RMB1.0 trillion in 2020, ranking fourth in Jiangsu Province. Despite the impact of the COVID-19 pandemic, Nantong was still able to maintain a good economic growth rate of 4.7% in 2020, which was above the national average growth rate and ranked first in the province.

High likelihood of receiving support from the Nantong Municipal Government. NTCD has a clear functional positioning in the first-class stated-owned enterprises in Nantong City, with major asset transfers from the government in 2019 and 2020. In addition, the Company has close linkage with the local government and good track record of receiving government support.

For example, it received a cash injection of RMB600 million in January 2021 and financial subsidies of RMB274.4 million in total from 2019 to 2020.

Major infrastructure constructor in Nantong City, especially for Tongzhou Bay and Pingchao New Town. The Company completed around 37 infrastructure construction projects, including roads, greening, schools, and cultural art centers in Tongzhou Bay. As of 30 September 2021, the Company has completed infrastructure projects of RMB4.6 billion for Tongzhou Bay and invested around RMB3.1 billion for Pingchao New Town.

Good recurring income from high-quality leasing assets. NTCD's leasing assets were mainly located in Tongzhou Bay including education buildings, standard factories, and office buildings, mostly leased out based on market prices with some policy support, which provided additional recurring income.

Credit Challenges

Cash collection on infrastructure projects being susceptible to volatility in the local property market. The settlement of NTCD's infrastructure projects is closely linked to the local land sale proceeds and government budget. For example, the local government of Tongzhou Bay will repay 60% of the land sales amount after the land project is sold out, and the rest will be repaid by stages. For projects in Pingchao New Town, the Tongzhou District government will settle the projects in accordance with the progress of the government's land banking activities.

Large capital expenditure needs that lead to fast-growing debt. As of 30 September 2021, the Company's total debt increased to RMB36.6 billion from RMB7.2 billion at end-2018. Its capitalization ratio was 54.1% at end-2020.

High level of external debt guarantees. As of 30 September 2021, the Company had outstanding external guarantees of RMB3.2 billion, which could potentially increase its repayment obligations. However, we believe that, considering the government's support and counter-guarantee measures, the credit risk of the guarantees is moderately controllable.

Rating Outlook

The stable outlook on NTCD's rating reflects our expectation that the Company will maintain its strategic role in Nantong City and continue to receive strong government support over the next 12 to 18 months

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal performance of Nantong City materially improves; (2) NTCD demonstrates a stronger role in Nantong City, with an increasing likelihood of government support; and (3) the Company's stand-alone credit profile improves significantly, such as improvement in asset quality and reduction in debt leverage.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal performance of Nantong City significantly deteriorates; (2) the likelihood of government support for the Company decreases; or (3) the Company's stand-alone credit profile weakens significantly, such as deteriorated business or financial performance.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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The rating has not been disclosed to the rated entity or its related party prior to publication.

The rated entity does not participate in the rating process. CCXAP has no access to the internal information of the rated entity but it believes that there is sufficient public information available that meets its rating methodology.

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