

CCXAP assigns first-time long-term credit rating of BBB_g+ to Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd., with stable outlook

Hong Kong, 17 February 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g+ long-term credit rating to Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd. (“CQNA” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of CQNA is underpinned by the Company's (1) dominant position in public policy projects in Nan'an District; and (2) diversified financing channels.

However, the rating is constrained by the Company's (1) large capital expenditure and relatively high debt leverage; (2) moderate asset quality; and (3) relatively weak liquidity position.

The rating also incorporates our expectation that CQNA has a high likelihood of receiving support from the local government when needed, given (1) the Company's high strategic importance to Nan'an District; (2) the local government's ultimate control over the Company; and (3) the Company's track record of receiving local government support.

Corporate Profile

Founded in 2003, CQNA is the largest infrastructure investment and financing platform in terms of total assets in Chongqing Nan'an District, primarily undertaking infrastructure construction, shantytown renovation, primary land development, property leasing and management businesses. In addition, the Company is also engaged in a number of commercial businesses, such as sports services, tourism highway operation, and environment protection business. It is directly owned by Chongqing Nan'an District Bureau of Finance, and ultimately supervised by Chongqing Nan'an District Government. As of 30 September 2021, Chongqing Nan'an District Bureau of Finance held 86.6% and National Development Fund Co., Ltd. held the remaining 13.4% of the Company's shares, respectively.

Rating Rationale

Credit Strengths

High likelihood of receiving support from the local government when needed. CQNA is the largest entity to undertake municipal infrastructure projects and the only entity to undertake shantytown renovation projects in Nan'an District. It is also one of the few entities to undertake primary land development in Nan'an District. CQNA is a local state-owned enterprise directly owned by Chongqing Nan'an District Bureau of Finance and has a track record of receiving government support in the form of capital injections, policy supports, project grants, and financial subsidies.

Dominant position of public policy projects in Nan'an District. As the main force for primary land development and infrastructure construction in Nan'an District, CQNA has played a key role in implementing the local government's development plan for Nan'an District. We expect that the Company's vital position in Nan'an District could ensure its business sustainability of public policy projects.

Diversified financing channels. The Company has access to diversified funding channels, including onshore and offshore capital markets, which could partially mitigate its liquidity risk. From 2020 to 2021, the Company and its subsidiaries raised RMB6.5 billion through the onshore market with coupon rates ranging between 3.95% and 4.75%. It also raised USD500 million through the offshore market, with coupon rates of 4.2% and 4.56%, respectively.

Credit Challenges

Large capital expenditure and relatively high debt leverage. CQNA has large construction projects in the pipeline, which caused high capital expenditure. As of 30 September 2021, the Company had 10 projects under development or planning, with a gross investment of approximately RMB12.6 billion and an uninvested amount of RMB6.2 billion. The Company also has a heightened debt burden and high debt leverage. As of 30 September 2021, the Company's total debt (including perpetual bonds) amounted to RMB32.9 billion, an increase from RMB27.0 billion as of end-2018, while its total capitalization ratio increased from 55.3% to 61.3% over the same period.

Moderate asset quality. CQNA's asset quality is considered to be moderate, as reflected by its average asset profitability but weak asset liquidity. The Company owns a large number of land reserves located in the core areas of Chongqing and the Yangtze riverside areas, which can generate considerable, albeit volatile, primary land development income. However, CQNA's asset liquidity is relatively weak, and most of its assets are inventories and receivables with low liquidity, causing capital occupation.

Relatively weak liquidity position. CQNA's stand-alone liquidity position is considered relatively weak owing to its large amount of debt maturing. As of 30 September 2021, its short-term debt amounted to RMB7.5 billion, accounting for 22.8% of total debt. Moreover, the Company's cash to short-term debt ratio was as low as 0.5x, indicating that its cash balance was insufficient to cover its short-term debt.

Rating Outlook

The stable outlook on CQNA's rating reflects our expectation that the Company will maintain its vital position in Nan'an District. We also expect that the Company will continue to receive ongoing government support in the form of project grants and financial subsidies.

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal strengths of Chongqing City and Nan'an District improve noticeably; (2) CQNA demonstrates a stronger role in Nan'an District, with increased likelihood of government support; and (3) the Company's stand-alone credit



profile improves significantly, such as improvements on business sustainability and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal strengths of Chongqing City and Nan'an District deteriorate significantly; (2) the likelihood of government support provided to CQNA declines; or (3) the Company's stand-alone credit profile weakens, such as deterioration in business performance or liquidity position.

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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