

CCXAP assigns first-time long-term credit rating of BBB_g- to Chuxiong State-owned Capital Investment Group Co. Ltd., with stable outlook.

Hong Kong, 8 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g- to Chuxiong State-owned Capital Investment Group Co. Ltd. (“CSCI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of CSCI reflects Chuxiong Prefecture Government’s relatively strong capacity and extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Chuxiong Prefecture Government’s relatively strong capacity to provide support reflects Chuxiong Yi Autonomous Prefecture (“Chuxiong Prefecture”) ranking 6th among 16 municipal cities and autonomous prefectures by gross regional product (“GRP”) in Yunnan Province in 2021, with a good GRP growth and economic fundamentals.

The rating also reflects the local government’s extremely high willingness to provide support, which is based on the Company’s (1) important strategic position in the infrastructure and industrial development in Chuxiong Prefecture; (2) solid track record of receiving government payments; and (3) access to funding mainly from banks. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) high debt growth driven by a large number of construction projects; and (3) credit risks from lending business and contingent risks from external guarantees.

Corporate Profile

Founded in 2016, formerly known as Chuxiong Industrial Investment Development Co., Ltd., CSCI is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Chuxiong Prefecture. It is primarily responsible for infrastructure construction and public utility services, such as infrastructure projects and rural road construction, as well as water supply and sewage treatment services. Apart from its main business, the Company is also engaged in commercial activities, such as industrial park development, self-operating projects, property leasing, real estate development, engineering construction and material trading. As of 30 June 2022, the Company is wholly owned and ultimately controlled by the Chuxiong Prefecture Government.

Rating Rationale

Credit Strengths

Important strategic position in the infrastructure and industrial development in Chuxiong Prefecture. CSCI is entrusted by the local government to undertake major infrastructure construction projects in Chuxiong Prefecture. It has successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, including road and rural upgrading projects. As of 30 June 2022, the Company had 4 agency construction projects under construction with an uninvested amount of RMB1.6 billion, and 10 PPP model projects under construction or planning, with an outstanding amount of RMB8.4



billion. We believe the Company's infrastructure construction business is highly sustainable given its sufficient project reserves.

Solid track record of receiving government payments. CSCI has a proven track record of receiving ongoing government support from Chuxiong Prefecture Government and Chuxiong Prefecture State-owned Asset and Supervision and Administration Commission (“Chuxiong SASAC”), including government subsidies, capital injections, asset injections and equity transfers. The Company also regularly receives repurchase payments for its agency construction projects and PPP projects, with a repurchase amount of RMB1.6 billion and RMB31.3 million from 2019 to 2021, respectively. Considering the important strategic role of CSCI, we expect the Company will continue to receive support from Chuxiong Prefecture Government and Chuxiong SASAC in the future.

Access to funding mainly from banks. The Company's large investment needs could be partly supported by its financing channels. As of 30 June 2022, around 86% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB2.4 billion. Around 9% of debt financing was provided by the onshore debt capital market. The Company's non-standard financing accounted for 5% of its total debt as of 30 June 2022.

Credit Challenges

Moderate exposure to commercial activities. In addition to public activities, CSCI is also involved in various commercial activities such as self-operating projects, property leasing, real estate development, engineering construction, material trading and equity investment. We consider CSCI's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets. Considering the Company's plan to develop its market-driven businesses, we believe the Company will expand the scale of its commercial business exposure in the future.

High debt growth driven by a large number of construction projects. CSCI has high debt growth due to its debt-driven business expansion over the past few years. Its total debt increased from RMB4.6 billion at end-2019 to RMB11.8 billion at mid-2022. The increase in debt was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. Given the Company's large capital expenditure pressure, we expect the Company will maintain a high debt growth for the next 12-18 months.

Credit risks from lending business and contingent risks from external guarantees. As of 30 June 2022, CSCI's external guarantee amount was RMB2.2 billion, accounting for 14.0% of its net asset. Most of the external guarantees were provided to local state-owned enterprises in Chuxiong Prefecture. As of 30 June 2022, the balance of the Company's poverty alleviation business and the entrusted loan was RMB2.2 billion and RMB60.0 million, accounting for 14.2% and 0.4% of its net assets, respectively.

Rating Outlook

The stable outlook on CSCI's rating reflects our expectation that the Chuxiong Prefecture Government's capacity to support the Company will remain stable, and the Company will maintain its strategic role as the key infrastructure construction entity in Chuxiong Prefecture.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics weaken the local government's willingness to provide support, such as reduced strategic significance or increased exposure to commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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

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