CCXAP assigns first-time long-term credit rating of BBB_g- to Chongqing Changshou Development Investment (Group) Co., Ltd, with stable outlook.

Hong Kong, 16 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time long-term credit rating of BBB_g- to Chongqing Changshou Development Investment (Group) Co., Ltd. ("CCDI" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of CCDI reflects Chongqing Changshou District Government's strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of Changshou District Government's capacity to provide support reflects Changshou District's vital role as an important water and land transportation hub in Chongqing City, with a good industrial foundation and economic strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strengthening strategic position as the most important urban comprehensive operation entity in Changshou District; (2) solid track record of receiving government payments; and (3) diversified funding channels. However, the Company's rating is constrained by the Company's (1) moderate exposure to commercial activities along with the development of industrial parks; (2) moderate debt growth and asset liquidity; and (3) contingent risks associated with external guarantees.

Corporate Profile

Founded in 2002, formerly known as Chongqing Changshou Infrastructure Development Co., Ltd., CCDI is the most important urban comprehensive operation entity in Changshou District, Chongqing City. The Company is mainly responsible for engineering construction projects and land consolidation in Changshou District. Apart from its main business, the Company is also engaged in other commercial activities, such as material trading and property development. As of 30 June 2022, the State-owned Assets Supervision and Administration Commission of Changshou District ("Changshou SASAC") is the sole shareholder and ultimate controller of the Company. In November 2022, Changshou SASAC planned to transfer 100% share of Chongqing Yingdi Industrial (Group) Co., Ltd. ("Yingdi Industrial") to the Company. Yingdi Industrial is one of the major local infrastructure investment and financing companies ("LIIFCs") in Changshou District, and is mainly responsible for engineering construction, land consolidation, and the development and operation of industrial parks.

Rating Rationale

Credit Strengths

Strengthening strategic position as the most important urban comprehensive operation entity in Changshou District. In order to further deepen the reform of state-owned enterprises and optimize the layout of state-owned capital, Changshou SASAC planned to transferred Yingdi Industrial to the Company in November 2022. The injection of Yingdi Industrial has expanded the Company's business scope and fully consolidated the Company's position in Changshou District. The Company has become the most important urban comprehensive operation entity in Changshou District, and its status is irreplaceable.

Strong business position with sufficient project reserves in public services. CCDI is mandated by the government to undertake local public activities, such as local engineering construction and land consolidation. After the transfer of Yingdi Industrial, the Company has undertaken more engineering construction projects, expanded its business scope, and enhanced its sustainable development capabilities in the engineering construction business. In addition, after the consolidation of Yingdi Industrial, its land consolidation area is expanded to Changshou High-tech Zone, as well as rural area and agricultural plantation in Changshou District. Considering the Company's strategic significance to the development of the local economy and public activities, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. As the most important urban comprehensive operation entity in Changshou District, CCDI has a solid track record of receiving government payments from the Changshou District Government, Changshou SASAC and Changshou Finance Bureau. These payments come in a variety of forms, such as government subsidies, capital injections, asset injections and equity transfers. The Company also receives repurchase payments for its land consolidation projects and engineering construction projects, with repurchase amounts of RMB 447.8 million and RMB 111.3 million in 2021, respectively. Considering the important strategic role of CCDI, we expect the Company will continue to receive support from the local government in the future.

Diversified financing channels. Around 21.4%% of the Company's debt financing was provided by domestic banks. Around 61.8% of debt financing was provided by the onshore debt capital market. In addition, the Company's reliance on non-standard financing is low, including financial leasing and trust leasing, which accounted for about 16.8% of its total debt. However, as of mid-2022, Yindi Industrial had approximately 2.2 billion non-standard financing, accounting for 33.4% of Yindi Industrial's total debt, which may further increase the Company's debt pressure. In addition, the Company's perpetual corporate bonds were RMB499.6 million as of 30 June 2022.

Credit Challenges

Moderate exposure to commercial activities along with the development of industrial parks. In addition to public activities, CCDI is also involved in various commercial activities such as property development, material trading and asset leasing. We consider CCDI's commercial business exposure to be moderate, as its market-driven businesses account for around 15%-30% of its total assets. Yingdi Industrial is also involved in various commercial activities, such as material and grain trading, leasing, and pipe network installation, so the Company's commercial business exposure will increase. Overall, the investment scale of industrial park development and operation projects is relatively large, and the Company will face large capital expenditure pressure in the future.

Moderate debt growth and asset liquidity. CCDI has moderate debt growth due to its debt-driven business expansion over the past few years. The Company's total debt had increased from RMB23.5 billion at end-2019 to RMB33.3 billion at mid-2022. The increase in debt was mainly attributable to the rapid expansion of engineering construction and land consolidation projects. Given the Company's large capital expenditure pressure, we expect the Company to maintain relatively high debt growth in the next 12-18 months. In addition, CCDI has moderate asset liquidity. The Company's total asset mainly consists of inventories and investment properties, accounting for 86.2% of its total asset as of 30 June 2022.

Contingent risks associated with external guarantees. CCDI's credit profile is undermined by a large number of external guarantees. As of 30 June 2022, the total amount of external guarantees was RMB11.6 billion, which accounted for 43.7% of CCDI's net assets. All these external guarantees were provided to local state-owned enterprises in Changshou District. Relatively large guarantee exposures may increase the Company's contingent liability risks.

Rating Outlook

The stable outlook on CCDI's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role as the most important urban comprehensive operation entity in Changshou District.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance or increased debt growth.

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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