

CCXAP upgrades Nantong Coastal Development Co., Ltd.'s long-term credit rating to A_g, with stable outlook

Hong Kong, 30 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Nantong Coastal Development Co., Ltd.’s (“NTCD” or the “Company”) to A_g from A_g⁻, with stable outlook.

The rating upgrade is based on our consideration of Nantong Municipal Government’s improving willingness to support NTCD. It also reflects our expectation that the Company will maintain its strong strategic position as the second-largest local infrastructure investment and financing companies (“LIIFCs”) by total assets in Nantong City.

The A_g long-term credit rating of NTCD reflects Nantong Municipal Government’s very strong capacity and very high willingness to provide support based on our assessment of the Company’s characteristics. Nantong Municipal Government’s capacity to provide support reflects Nantong City’s status as the fourth largest city by gross regional product (“GRP”) in Jiangsu Province in 2021. It has a good economic fundamental and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership and ultimate control by the Nantong Municipal Government; (2) strong strategic position in local infrastructure construction; (3) solid track record of receiving government payments; and (4) good access to funding. However, the Company’s rating is constrained by (1) large exposure to commercial businesses; (2) fast-growing debt from large development pipelines.

Corporate Profile

Founded in 2012, NTCD is one of the key LIIFCs in Nantong City. It undertakes major infrastructure projects in Nantong City, particularly in Tongzhou Bay and Pingchao New Town. NTCD also positions as 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. NTCD 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 as of 30 June 2022.

Rating Rationale

Credit Strengths

Strong strategic position in local infrastructure construction. NTCD has a clear functional positioning in the first-class state-owned enterprises in Nantong City, with a wide range of business coverage. It undertakes the major infrastructure construction and urban service operation of Nantong City, particularly in Tongzhou Bay and Pingchao New Town. NTCD is the second-largest LIIFC that is directly owned by the Nantong Municipal Government in terms of total assets, as of 30 June 2022. We believe that the strategic position of NTCD in Nantong

City's economic development and public welfare remains strong and will not be easily replaced in the short-to-medium term.

Solid track record of receiving government payments. NTCD has received ongoing support from the Nantong Municipal Government including capital injections, project payments and financial subsidies. From 2019 to 2022H1, the Nantong Municipal Government transferred its state-owned assets or equities to the Company totaling RMB8.2 billion. The Nantong Municipal Government also established a special fund, managed by the Nantong Finance Bureau, to support local infrastructure projects. This will largely increase the sustainability of local infrastructure projects, thereby benefiting NTCD's project funding source.

Good access to funding. NTCD has access to multiple financing channels, including bank loans and bond issuance. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. The Company also has a good track record of fund-raising activities in the capital market. In 2022, the Company raised debt of RMB10.7 billion via 15 tranches of onshore bonds with coupon rates from 1.9% to 3.35%.

Credit Challenges

Large exposure to commercial businesses. The Company's exposure to commercial businesses is high which accounted for over half of its total assets. Apart from public services, NTCD has also been engaged in diversified commercial activities covering real estate development, property leasing, trading business, financial service and equity investment. Although the commercial activities can bring in supplemental income, they may also pose higher operating and business risks to the Company comparing with its infrastructure businesses.

Fast-growing debt from large development pipelines. NTCD has a high debt leverage owing to its debt-driven business expansion over the past few years. The Company's total debt has increased and the total capitalization ratio is relatively high. Given that the Company's project investment mainly relies on external financing, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

Rating Outlook

The stable outlook on NTCD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Nantong City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in the exposure to commercial activities.

What could downgrade the rating?



The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decrease the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Vincent Tong
Assistant Director of Credit Ratings
+852-2860 7125
vincent_tong@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656