

CCXAP assigns first-time long-term credit rating of A₉- to Kunshan Guochuang Investment Group Co., Ltd., with stable outlook.

Hong Kong, 30 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of A₉- to Kunshan Guochuang Investment Group Co., Ltd. (“KGIG” or the “Company”), with stable outlook.

The A₉- long-term credit rating of KGIG reflects Suzhou Kunshan City Government’s very strong capacity and high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Kunshan City Government’s capacity to provide support reflects its strong comprehensive strength, ranking 1st among Top 100 counties/county-level cities in China, with good fiscal stability and fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in public policy activities of Kunshan Economic and Technological Development Zone (“Kunshan ETDZ”), which has a leading position among the national-level ETDZs; (2) solid track record of receiving government payments; and (3) good access to financing channels. However, the Company’s rating is constrained by the Company’s (1) high exposure to commercial activities, the profitability of which is susceptible to macro-environment and industry cyclicality; and (2) relatively high debt growth driven by a large number of project pipelines.

Corporate Profile

Founded in 1992, KGIG is the largest local infrastructure investment and financing companies (“LIIFCs”) by total asset in Kunshan City. The Company is primarily responsible for infrastructure construction and land development in Kunshan ETDZ. Apart from its main business, the Company is also engaged in other commercial businesses, such as real estate development, leasing, electronic sales and greening. As of 30 June 2022, the Company is directly and wholly owned by the State-owned Assets Supervision and Administration Office of Kunshan Municipal Government (“Kunshan SASAO”).

Rating Rationale

Credit Strengths

Essential role in public policy activities of Kunshan ETDZ. KGIG is the largest LIIFC in Kunshan City by total asset and the sole LIIFC in Kunshan ETDZ. The Company is mandated by the local government to undertake public policy activities, such as infrastructure construction and land development in Kunshan City. Considering KGIG’s essential role in regional economic and social development in Kunshan ETDZ as well as Kunshan City, 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. KGIG has a proven track record of receiving government payments from Kunshan SASAO in forms of government subsidies, land injections, and capital injections, to support its businesses and operations. The Company also

regularly receives repurchase payments from the local government for its infrastructure construction projects. Considering that the Company plays a strategic position in regional economic and social development in Kunshan City, we expect the Company will continue to receive support from the Kunshan SASAO.

Good access to financing channels. KGIG has good access to financing channels, such as bank loans and bond market. It has sufficient standby liquidity. The Company has access to onshore debt capital market and equity capital market. In addition, the Company has relatively low reliance on non-standard financing, which accounted for around 8% of its total debt.

Credit Challenges

High exposure to commercial activities. In addition to public welfare activities, KGIG is also engaged in other commercial activities such as electronic sales, property development, and property leasing. We consider KGIG's commercial business exposure to be high, accounting for more than 30% of its total assets.

Relatively high debt growth driven by a large number of project pipelines. KGIG has a relatively high debt growth mainly attributable to the fast expansion of the infrastructure construction and property development projects. Its total debts (including perpetuals) increased from RMB44.2 billion at the end of 2019 to RMB56.2 billion as of 30 September 2022, with relatively high total capitalization ratio of 63.5%. Given the Company's large capital expenditure pressure, we expect the Company's debt leverage to remain at a relatively high level for the next 12-18 months.

Rating Outlook

The stable outlook on KGIG'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 in public policy activities of Kunshan ETDZ.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as reducing strategic significance or weakening access to financing channels.

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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