

CCXAP assigns first time long-term credit rating of BBB_g- to Baoying Development Investment Co., Ltd., with stable outlook.

Hong Kong, 15 February 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Baoying Development Investment Co., Ltd. (“BDIC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of BDIC reflects Baoying County Government’s relatively strong capacity and extremely high willingness to provide support based on our assessment of the Company’s characteristics. Baoying County Government’s capacity to provide support reflects Baoying County’s location advantage in Yangzhou City and it has formed a local manufacturing industry system, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role as the primary platform for infrastructure construction in Baoying Economic and Technological Development Zone (“Baoying ETDZ”); and (2) track record of receiving government payment. However, the Company’s rating is constrained by (1) insufficient project reserves for its infrastructure construction; (2) moderate asset liquidity arising from large amount of receivables; and (3) medium risk of contingent liabilities for the external guarantee.

Corporate Profile

Founded in 2003, BDIC is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Baoying County, it is mainly responsible for infrastructure construction, resettlement housing, factory building, as well as land consolidation in Baoying ETDZ. The Company also participates in commercial activities such as plant leasing and industrial park construction. As of 30 September 2022, Baoying County Government controlled the Company; it indirectly held 30% of the Company’s share through Jiangsu Baoying Economic Development Holding Co., Ltd. (“BEDH”) and 70% of the Company’s share through Baoying County SME Financing Service Center (“BCFSC”). At the same time, the Company’s paid-in capital was RMB150.0 million.

Rating Rationale

Credit Strengths

Primary platform for infrastructure construction in Baoying ETDZ. As one of the two major LIIFCs in Baoying County, BDIC is positioned as the primary platform for infrastructure construction, factory building, resettling housing, land consolidation and transfer in Baoying ETDZ and two towns under the jurisdiction of Baoying County. Besides, Most of the constructions are under agency agreements with local government. Considering the BDIC’s essential role in Baoying County, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future.

Track record of receiving government payments. BDIC has received ongoing support from the Baoying County Government including project payments and operational subsidies. From 2019 to 2022Q3, the Company has received a total of RMB662.0 million in operating subsidies from Finance Office of Baoying ETDZ, which was a great contribution to the Company's net profit. The Company also received infrastructure project repayments from local government. Given the Company's strong public policy role and expanding public-related activities in the Baoying ETDZ, we expect the Company will continue to receive government payments over the next 12 to 18 months.

Credit Challenges

Insufficient credit facilities and high reliance on capital markets. BDIC has access to multiple financing channels, including bank loans and bond issuance. However, its credit facilities were insufficient, with an unutilized amount of RMB117.0 million as of 30 September 2022. Around half of the Company's debt financing was provided by bond issuances, the high reliance on direct financing may cause the refinancing stability of the Company to be easily affected by fluctuations in the capital market. Meanwhile, the Company had moderate exposure to non-standard financing. The weak local financial profile and relatively high overall financing cost may put certain refinancing pressure and liquidity problem on the Company.

Moderate debt management and asset liquidity. BDIC has a relatively good debt leverage, the Company's total debt and capitalization ratio decreased over the past few years. However, the short-term debt of the Company was relatively high, accounting for 52.8% of the total debt. The liquidity profile was weak with a cash to short-term debt ratio of around 0.3x as of 30 September 2022, indicating that the Company's cash balance was insufficient to cover its short-term debt.

Medium risk of contingent liabilities for the external guarantee. BDIC's credit profile is also constrained by its large number of external guarantees, which could potentially increase its repayment obligations. As of 30 June 2022, the Company had outstanding external guarantees of RMB3.3 billion, accounting for 61% of its net assets. The number of the outstanding external guarantees was still increasing as of end-2022.

Rating Outlook

The stable outlook on BDIC'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 Baoying County.

What could upgrade the rating?

The rating could be upgraded if (1) Baoying County 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 improved asset liquidity and reduction in the exposure to external guarantee.

What could downgrade the rating?



The rating could be downgraded if (1) Baoying County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional importance or weakened government payments.

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

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:
http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

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.

Olivia Feng
Credit Analyst
+852-2860 7133
olivia_feng@ccxap.com

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

Client Services: +852-2860 7111



Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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