

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Zhoushan Putuo Construction Co., Ltd., with stable outlook.**

Hong Kong, 7 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Zhoushan Putuo Construction Co., Ltd. (“Putuo Construction” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of Putuo Construction Putuo District Government’s relatively strong capacity to support and extremely high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Putuo District Government’s capacity to provide support reflects the fact that Zhoushan Putuo District is rich in seafood, port and tourism resources, but constrained by its small economic scale and modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position in the construction of infrastructure projects in Putuo District; and (2) strong support from government payments. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; and (2) sufficient liquidity buffer, but high reliance on non-standard financing.

### **Corporate Profile**

Formerly known as Zhoushan Bangsheng Trade Co., Ltd., the Company is founded by Zhoushan Putuo Gangfu Development and Construction Co., Ltd. (“Putuo Gangfu”) with an initial registered capital of RMB25 million in August 2008. In January 2022, Putuo Gangfu transferred 100% of the Company’s equity shares to Zhoushan Putuo City Investment Development Group Co., Ltd. (“PCIG”). Putuo Construction is mainly responsible for the infrastructure construction and resettlement housing projects in Lujiaoshi Island and Donggang New Area in Putuo District. It is also involved in trading, assets leasing and security services businesses. As of 30 September 2022, the Company was wholly owned by PCIG and ultimately controlled by the Finance Bureau of Putuo District, Zhoushan City.

### **Rating Rationale**

#### **Credit Strengths**

**Important position in the construction of infrastructure and resettlement housing project in Putuo District.** As the most important core subsidiary of PCIG, the Company is mainly responsible for infrastructure construction, land development and resettlement housing projects in Lujiazhi Island of Putuo District. Given the Company’s important role in local economic development, we expect Putuo Construction is unlikely to be replaced in the foreseeable future.

**Strong support from government payments.** Putuo Construction has a proven track record of receiving government support in the form of capital injection, asset transfers and financial subsidies. In terms of equity injection, in 2021, the Company received 100% of the equity transfer of several companies held by PCIG with the approval of Zhoushan Putuo State-owned Assets Management Office. In terms of asset injection, PCIG has injected management rights

of Donggang Business Center, Talent Apartments and parking spaces in Putuo District to the Company. From 2019 to 2021, the Company received government subsidies of approximately RMB42.8 million.

**Improving debt structure and moderate asset liquidity.** The Company's debt structure has improved, and the short-term debt to total debt ratio improved from 47.8% at end-2019 to 27.8% at 2022Q3. However, due to the merger of subsidiaries and expansion of construction projects, Putuo Construction's debt burden is increasing. Its total debt has increased from RMB370 million at end-2019 to RMB2.9 billion at 2022Q3, with a total capitalization ratio of 32.4% as of 30 September 2022. In addition, as of 30 September 2022, the Company has inventories and accounts receivables of RMB5.5 billion, accounting for around 56.7% of its total assets.

### Credit Challenges

**Medium exposure to commercial activities.** Putuo Construction's commercial businesses mainly include trading, security services and asset leasing businesses. The Company is engaged in commodity trading business including two sub-segments of building materials trading business represented by steel and stone, and bulk commodity trading business represented by refined oil and asphalt. The Company also conducts financial leasing business and parking business.

**Sufficient liquidity buffer, but high reliance on non-standard financing.** Putuo Construction has access to funding from bank loans. As of 30 September 2022, the Company has obtained a total of RMB3.1 billion in bank credit facilities, with an available credit of RMB2.0 billion, indicating a sufficient liquidity buffer. However, the Company also had a relatively high reliance on non-standard financing, with a total amount of RMB1.7 billion as of 30 September 2022, accounting for 59.1% of its total debt.

### Rating Outlook

The stable outlook on Putuo Construction's rating reflects our expectation that the Putuo District Government's capacity to provide support will be stable, and that the Company will maintain its important role in Putuo District over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Putuo District Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreased exposure to commercial activities and expanded financing channels.

#### What could downgrade the rating?

The rating could be downgraded if (1) Putuo District Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local



government's willingness to provide support, such as reduced strategic significance or decreased government payment.

### **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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