

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

Hong Kong, 27 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Qufu Xingda Investment Development Co., Ltd. (“QFXD” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of QFXD reflects Qufu City Government’s relatively strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Qufu City Government’s capacity to support reflects Qufu City’s moderate fiscal metrics, supporting by its rich tourism resources base.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership and ultimate control by Qufu City Government; (2) sole entity undertaking public infrastructure construction projects within Qufu City; and (3) solid track record of government support. However, the Company’s rating is constrained by (1) higher business risk in property segment; and (2) ongoing debt growth with certain capital expenditure pressure; and (3) concentrated financing channels with limited bank facilities.

Corporate Profile

Founded in September 2015, QFXD is the pivotal local infrastructure investment and financing company (“LIIFC”) in Qufu City with the largest total assets. In accordance with the economic development strategy and social development requirements of Qufu City, QFXD is responsible for public infrastructure and policy-driven projects, including infrastructure construction and resettlement housing construction. The Company also carries out some commercial activities, consisting of property development, gravel sales, property management, and industrial parks construction and operation. As of 30 September 2022, it was directly and wholly owned by Qufu City State-owned Assets Service Center, and Qufu City Government was its ultimate controller.

Rating Rationale

Credit Strengths

Sole entity undertaking public infrastructure construction projects within Qufu City.

QFXD is the largest LIIFC in Qufu City, which controls and manages most of the key LIIFCs in the region. The Company has an essential strategic role in the development of Qufu City, with a policy mandate to undertake major construction projects, along with the local government’s broad strategy in developing Qufu City. The visibility and predictability of the Company’s business position is high and its policy mandate is strong, in our view. We also expect the Company to undertake most of the public projects in the mandated areas and transfer-out of its public projects is unlikely.

Solid track record of government support. As an essential entity in infrastructure construction and public utility operation in Qufu City, QFXD has solid track record of receiving

ongoing support from the local government in terms of asset injections, equity transfers and, operating subsidies. The successful consolidation of the LIIFCs significantly enlarged the range of business coverage of the QFXD. The magnitude and track record of government support indicates the government's propensity to support the Company.

Credit Challenges

Higher business risk in property development segment. QFXD's major commercial businesses include property development, gravel sales, property management, and industrial park construction and operation, exerting relatively high capital expenditure pressure. The Company's risk exposure to commercial business was medium as we estimated the commercial assets accounted for less than 30% of total assets as of 30 September 2022. However, the increasing investments in commercial activities will inevitably expose the Company to higher business and financial risks.

Ongoing debt growth with certain capital expenditure pressure. Driven by continuous financing and investment for construction projects, QFXD's total debt has been growing over the past three years, especially in the first three quarters of 2022. The significant increase in the total debt is mainly driven by the investment in several infrastructure construction projects, we believe its debt growth is in line with the region's development need. Considering the large capital expenditure needs of its construction projects, we expect the Company's total debt will continue to rise.

Concentrated financing channels with limited bank facilities. QFXD has relatively concentrated financing channels and majority of the debts were come from domestic banks. Given the QFXD's important status and the key role in the local development of Qufu City, we expect the Company to maintain access to stable funding from the local commercial banks. However, considering the Company's limited available credit facilities amount, and large outstanding investments on its construction projects, we also expect additional funding channels are needed to fulfil its large capital expenditure, such as onshore and offshore debt capital market.

Rating Outlook

The stable outlook on QFXD rating reflects our expectation that Qufu City Government's capacity to provide support will be stable, and the Company's characteristics such as its strategic role in the development and operation of Qufu City will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Qufu City 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 lowering exposure to risky commercial activities, and diversifying the financing channels.

What could downgrade the rating?



The rating could be downgraded if (1) Qufu City 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, deteriorated debt management, or increased exposure to commercial activities.

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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