

CCXAP affirms Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 31 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd.'s (“CQNA” or the “Company”) long-term credit rating at BBB_g+, with stable outlook. At the same time, CCXAP has affirmed its senior unsecured debt rating of BBB_g+

The BBB_g+ long-term credit rating of Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd. reflects Chongqing Nan'an District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of the Nan'an District Government's capacity to provide support reflects Nan'an District's status as one of nine core districts in Chongqing City, with relatively good fiscal stability and moderate fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position of public policy projects in Nan'an District; (2) solid track record of receiving local government support; and (3) diversified access to funding. However, the rating is constrained by the Company's (1) moderate asset liquidity; and (2) high debt leverage.

Corporate Profile

Founded in 2003, CQNA is the largest infrastructure investment and financing platform in terms of total assets in Chongqing Nan'an District, primarily undertaking infrastructure construction, shantytown renovation, primary land development. In addition, the Company is also engaged in a number of commercial businesses, such as sports services, tourism highway operation, property leasing business. It is directly owned by Chongqing Nan'an District Bureau of Finance, and ultimately supervised by Chongqing Nan'an District Government. As of 30 September 2022, Chongqing Nan'an District Bureau of Finance held 89.33% and National Development Fund Co., Ltd. held the remaining 10.67% of the Company's shares, respectively.

Rating Rationale

Credit Strengths

High strategic importance to the development of Nan'an District. CQNA is the largest entity to undertake municipal infrastructure projects and the only entity to undertake shantytown renovation projects in Nan'an District. It is also one of the few entities to undertake primary land development in Nan'an District. Given its strategic positioning in Nan'an District, we expect that the Company's important role will not be easily replaced by other companies in the foreseeable future.

Dominant position of public policy projects in Nan'an District. As the main force for primary land development and infrastructure construction in Nan'an District, CQNA has played a key role in implementing the local government's development plan for Nan'an District. The

Company has undertaken and completed a number of important municipal infrastructure construction and shantytown renovation projects in Nan'an District. We expect that the Company's vital position in Nan'an District could ensure its business sustainability of public policy projects.

Low exposure to commercial activities. In addition to public activities, CQNA is also involved in various commercial activities such as sports services, tourism highway operation and property leasing. We consider CQNA's commercial business exposure to be low, as its market-driven businesses account for less than 10% of its total assets.

Solid track record of receiving local government support. As the most important infrastructure construction and state-owned assets operation entity in Nan'an District, CQNA has a track record of receiving payments from Nan'an District Government. These payments take various forms, such as policy supports, project grants, special funds, tax refunds and financial subsidies. The Company also regularly receives repayments for its public projects.

Diversified access to funding. CQNA has diversified source of funding including banks loans and bond issuances. The Company also has a sufficient liquidity buffer. As of 30 September 2022, it held a total available credit facilities of RMB7.4 billion. The Company has a track record of fund-raising activities in both onshore and offshore debt capital market, including issuance of MTNs, PPNs, private bonds, and USD bonds. In addition, the Company has no exposure to non-standard financing.

Credit Challenges

High debt leverage. Due to the ongoing construction of public activities projects, the debt burden of CQNA has increased modestly, showing a relatively good debt management. Its total debt (including perpetuals) had increased from RMB30.4 billion at end-2019 to RMB32.7 billion as of 30 September 2022, but with high capitalization ratio of 58.9%. However, the Company's debt structure has improved. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

Moderate asset liquidity. CQNA's asset liquidity is moderate, as most of its assets are inventories and receivables with low liquidity, causing capital occupation. As of 30 September 2022, the Company's inventories amounted to RMB20.3 billion, accounting for 28.0% of total assets. Its total receivables amounted to RMB30.9 billion, accounting for 42.7% of total assets.

Rating Outlook

The stable outlook on CQNA's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its key role as the largest entity to undertake municipal infrastructure projects and the only entity to undertake shantytown renovation projects in Nan'an District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improvement on asset liquidity and debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

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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