

CCXAP assigns first-time long-term credit rating of BBB_g- to Longyou State-owned Assets Management Co., Ltd., with stable outlook

Hong Kong, 14 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g- to Longyou State-owned Assets Management Co., Ltd. (“LSAM” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of LSAM reflects (1) Longyou County Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Longyou County Government’s capacity to provide support reflects Longyou County’s relatively good investment potential, with relatively good industrial base and fiscal stability, but constrained by its relatively small economic scale and weak fiscal self-sufficiency.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant strategic role as the largest state-owned enterprise in Longyou County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) medium exposure to contingent risks.

Corporate Profile

Established in 2003, LSAM is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Longyou County. It plays the most important role in the local public policy activities, such as infrastructure construction, resettlement housing construction, water supply, sewage treatment, and tourism. Besides, the Company also engages in some commercial activities such as concrete and sandstone trading, property leasing, and. As of 30 September 2022, the Company was wholly owned by Longyou State-owned Capital Investment Group Co., Ltd (“LSCI”), and ultimately controlled by the State-owned Assets Supervision and Administration Office of Longyou County Government (“Longyou SASAO”).

Rating Rationale

Credit Strengths

Dominant strategic role as the largest state-owned enterprise in Longyou County. As the largest LIIFC by total assets and the most important infrastructure construction and state-owned assets management entity in Longyou County, LSAM is mandated by the local government to undertake local public activities that are vital to local economic and social development, such as infrastructure construction, resettlement housing construction, water supply, sewage treatment, and tourism.

High sustainability for the public policy projects. LSAM has undertaken a large amount of public policy projects, such as roads, schools, resettlement housings, and pipe networks, and provided utilities, tourism, and grain storage services in Longyou County. Given sufficient

projects under construction, we consider the sustainability of the public-related businesses to be high, but the Company may face large capital expenditure pressure.

Good track record of receiving government payments. LSAM has a solid track record of receiving payments from the Longyou County Government. These payments take various forms, such as government subsidies, capital injections, and asset transfers. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

Good access to funding. LSAM has good access to funding as reflected by its good banking relationships and access to the onshore debt capital market. It also plans to issue offshore bonds to broaden its financing channel. Additionally, the Company has low reliance on non-standard financing.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, LSAM is also involved in various commercial activities such as concrete and sandstone trading, and property leasing. We consider LSAM's commercial business exposure to be medium, as its market-driven businesses account for around 25% to 30% of its total assets.

High debt leverage and moderate asset liquidity. With ongoing financing for its construction projects in recent years, LSAM has a high debt leverage. We expect that, given its large future capital needs, the Company's debt leverage will maintain at a relatively high level in the next 12 to 18 months. Furthermore, LSAM has moderate asset liquidity. The Company's total asset mainly consists of inventories and non-current assets, which accounted for 82.7% of its total asset as of 30 September 2022.

Medium exposure to contingent risks. LSAM has medium exposure to contingent risks due to its relatively large amount of external guarantees. As of 30 September 2022, its external guarantee amount was RMB2.6 billion, accounting for 19.3% of its net asset. All of the external guarantees are provided to state-owned enterprises in Longyou County.

Rating Outlook

The stable outlook on LSAM's rating reflects our expectation that Longyou County Government's capacity to provide support will remain stable, and the Company will maintain its important strategic role in infrastructure construction from the local government over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Longyou County Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as expansion of its policy role, material decrease in external guarantees, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Longyou County Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in importance of its policy role, material decrease in government payments, or deteriorated debt management.

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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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.

Peter Chong

Senior Analyst

+852-2860 7124

peter_chong@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com



Client Services: +852-2860 7111



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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