

CCXAP assigns long-term credit rating of BBB_g to Changxing Urban Construction Investment Group Co., Ltd., with stable outlook.

Hong Kong, 31 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned long-term credit rating of BBB_g to Changxing Urban Construction Investment Group Co., Ltd., (“CUCI” or the “Company”) with stable outlook.

The BBB_g long-term credit rating of the Company reflects (1) Changxing County Government’s strong capacity to support, and (2) the local government’s extremely high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Changxing County Government’s capacity to support reflects its status as the 50th Top 100 Economic Counties in China in 2022, with good economic strength and moderate fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in undertaking public services in Changxing County; (2) sustainable public businesses given large projects in the pipeline; and (3) good track record of receiving government payments. However, the Company’s rating is strained by (1) moderate commercial exposure; (2) medium contingent liability risk from external guarantees provided to other local SOEs; and (3) relatively high debt leverage and moderate asset liquidity.

Corporate Profile

CUCI, formerly known as Changxing Urban Construction Co., Ltd., was established by Changxing County Urban Construction Development Corporation on 21 December 2007, which was controlled by the Changxing Municipal Government. CUCI is one of the key infrastructure investment and financing companies in Changxing County, Huzhou City. The Company mainly engages in trading, infrastructure construction, property development, primary land consolidation and city operations, including water supply, education, and car park operation.

As of 31 December 2022, the State-owned Assets Supervision and Administration Office of Changxing County People’s Government (“Changxing SASAO”) and Zhejiang Changxing Financial Holdings Group Co., Ltd. held 69.6% and 26.1% of the Company’s shares respectively, while Zhejiang Province Financial Development Co., Ltd. held the remaining 4.3%. Changxing SASAO is the ultimate controller of the Company. The Company’s paid-in capital was RMB2.3 billion.

Rating Rationale

Credit Strengths

Important role in undertaking public services in Changxing County. CUCI is one of the most important local infrastructure investment and financing companies in Changxing County and has mainly undertaken public activities such as infrastructure construction, primary land consolidation, and water supply. The Company has made significant contributions to the regional development of Changxing County, we expect that the strategic position of the Company will be maintained in the foreseeable future.

Good track record of receiving ongoing government payments. The local government provides strong support, in terms of capital injection, assets injection and subsidies, to the Company to support its business development. From 2020 to 2022, the Company received RMB2.4 billion in government subsidies and a fiscal interest discount of RMB1.3 billion to support its operation. The local government also injected sandstone assets operation rights and outdoor advertising spaces franchise rights within the main urban area of Changxing County, as well as real properties, cash and seedling assets into the Company, increasing its capital reserve of RMB2.1 billion from 2020 to 2022.

Good access to funding. The Company had total credit facilities of RMB24.2 billion, of which the unutilized amount was about RMB4.5 billion as end-2022. The Company also had good access to the debt markets. From 2022 to 2023, the Company and its subsidiaries raised RMB7.7 billion through the onshore debt market; and had raised USD535 million through the offshore debt market. Besides, the Company's exposure to non-standard financing is relatively low, accounting for about 10% of total debt at end-2022.

Credit Challenges

Moderate exposure to commercial activities. CUCI has also diversified into other market-oriented businesses since 2017, such as trading, property development, and sandstone mining. The proportion of commercial business assets is less than 20% of the Company's total assets, indicating that the overall commercial business risk is moderate. We also expect that the diversified business layout can help mitigate the Company's business risk and enrich its income source. However, some of these businesses have a low-profit margin, which has adversely affected the Company's profitability, and we will continue to monitor the operation of the related businesses.

Relatively high debt leverage and moderate asset liquidity. The Company's total debt continued to increase in the past three years as ongoing investment needs. From 2020 to 2022, the Company's total debt increased from RMB27.0 billion to RMB36.6 billion, and its total capitalization ratio was at a relatively high level of around 52.7% in 2022. The Company's asset liquidity was moderate as they were mainly inventories with weak liquidity. As of 31 December 2022, the inventories amounted to RMB34.9 billion, accounting for 45.6% of total assets.

Medium contingent liability risk from external guarantees provided to other SOEs. The Company is exposed to a medium contingent liabilities risk. At end-2022, the Company recorded an external guarantee amount of RMB11.7 billion, accounting for 35.6% of its total equity. Those guaranteed entities are the state-owned enterprises ("SOE") in Changxing County, without counter-guarantee measures, the credit risk of the Company and other local SOEs might be heightened if one guaranteed entity suffers from credit issues.

Rating Outlook

The stable outlook on CUCI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in the public welfare functions in Changxing County.

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 improvement in debt management or assets quality.

What could downgrade the rating? The rating could be downgraded if (1) the local 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 its strategic significance; decrease in government payments; or increase in 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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