

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

Hong Kong, 13 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Xinchang Urban Construction Investment Group Co., Ltd. (“XUCI” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of XUCI reflects (1) Xinchang County Government’s 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 Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important strategic role in the infrastructure construction and utility services in Xinchang County; and (2) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

Corporate Profile

Established in 2016, XUCI is one of the key subsidiaries of Zhejiang Xinchang Investment Development Co., Ltd. (“ZXID”). It plays an important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment. Besides, the Company also engages in some commercial activities such as engineering construction, material trading, car parking services and property leasing. As of 31 December 2022, the Company was wholly owned by ZXID and ultimate controlled by the State-owned Assets Supervision and Administration Commission Office of the People’s Government of Xinchang County (“Xinchang SASAC”).

Rating Rationale

Credit Strengths

Important strategic role in the infrastructure construction and utility services in Xinchang County. XUCI is the most important subsidiary of ZXID, responsible for various public-related activities such as infrastructure construction, land consolidation, water supply and sewage treatment. It has completed various significant infrastructure projects in Xinchang County. Given its important strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Good track record of receiving government payments. XUCI has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and cash injection. 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.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, XUCI is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider XUCI's commercial business exposure to be medium, as its market-driven businesses account for around 25% of its total assets.

High debt leverage and moderate asset quality. With ongoing financing for its construction projects in recent years, XUCI has demonstrated a rapid debt growth and high debt leverage over the past few years. The Company's total debt increased from RMB16.6 billion at end-2020 to RMB29.6 billion as of 31 December 2022, with total capitalization of 57.6%. XUCI has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2022, the Company's total asset mainly consists of inventories and non-current assets, which accounted for 84.4% of its total asset.

Rating Outlook

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

What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as material decrease in exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang 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 its importance, 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

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/



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