

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiangsu Fushui Water Group Co., Ltd., with stable outlook.

Hong Kong, 7 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Jiangsu Fushui Water Group Co., Ltd. (“FSWG” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of FSWG reflects Funing County Government’s relatively strong capacity to provide support and extremely high willingness to support based on our assessment of the Company’s characteristics. Our assessment of Funing County Government’s capacity to support reflects Funing County’s ongoing economic growth along with improving industrial structure. However, its fiscal balance ratio was relatively weak.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong role in hydraulic infrastructure construction and public services in Funing County; and (2) solid track record of receiving government support. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) increased debt level to support investment in public policy projects; and (3) relatively high reliance on non-standard financing.

Corporate Profile

Established in 2009, FSWG is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Funing County. FSWG is primarily engaged in hydraulic infrastructure construction, water supply and pipeline installation in Funing County. It also conducts other businesses including grain sales and land leasing. As of 31 March 2023, Funing County Government ultimately controlled the Company and indirectly held 100% shares of the Company through Funing Chengfa Holding Group Co., Ltd. The total assets of the Company were RMB13.2 billion as of 31 March 2023.

Rating Rationale

Credit Strengths

Strong role in hydraulic infrastructure construction and public services in Funing County. FSWG is one of the key LIIFCs in Funing County and is responsible for infrastructure construction, particularly hydraulic infrastructure, water supply and grain reserves. FSWG engages in water supply covering the entire area of Funing County with a quasi-monopoly position. It is also the sole entity responsible for the acquisition, storage, and conversion of county-level grain reserves in Funing County.

Solid track record of receiving government support. FSWG has a solid track record of receiving government support in various forms such as capital injection, operating subsidies, and government payment for construction projects. For example, the Company received a capital injection from the government in the form of cash of RMB100 million in 2022, enhancing

the capital strength of the Company. We expect FSWG to receive ongoing government support given its essential role in hydraulic infrastructure construction and public services.

Credit Challenges

Medium exposure to commercial activities. FSWG diversified into other business segments such as grain sales and land leasing. The Company has medium exposure to commercial activities, accounting for less than 30% of the Company's total assets, according to our assessment.

Increased debt level to support investment in public policy projects. FSWG shows a rising debt burden owing to its expansion in the construction of public-policy projects over the past few years. Considering the time lag in government payments, the outstanding investment in these projects may rely on external financing, we expect the Company's debt burden will continue to increase in the next 12 to 18 months.

Relatively high reliance on non-standard financing. FSWG maintains good relationships with different banks and financial companies such as trust and financial leasing companies. The Company had certain exposure to non-standard financing, and the overall cost of financing for non-standard products was high, which may exert a higher pressure on debt repayment.

Rating Outlook

The stable outlook on FSWG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in hydraulic infrastructure construction and public services in Funing County.

What could upgrade the rating?

The rating could be upgraded if (1) Funing 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 reduced exposure to commercial activities and improved access to funding.

What could downgrade the rating?

The rating could be downgraded if (1) Funing 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 reduced regional significance or deteriorate capital structure.

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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