

CCXAP assigns first-time long-term credit rating of BBB_g+ to Taizhou Luqiao State-owned Assets Development Group Co., Ltd., with stable outlook.

Hong Kong, 18 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Taizhou Luqiao State-owned Assets Development Group Co., Ltd., (“LSAD” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Taizhou Luqiao State-owned Assets Development Group Co., Ltd. (“LSAD” or the “Company”) reflects (1) Luqiao District 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 Luqiao District Government’s capacity to provide support reflects its relatively good comprehensive strength, ongoing economic growth, and good fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) most important position in the infrastructure construction and utility services of Luqiao District; (2) high sustainability of public policy businesses; (3) good track record of receiving government payments; and (4) good access to fundings. However, the Company’s rating is constrained by its (1) medium exposure to diversified commercial activities, with manageable commercial risks; and (2) high debt leverage and moderate asset liquidity.

Corporate Profile

Founded in 2000, LSAD is the most important local infrastructure investment and financing company (“LIIFC”) in Luqiao District, Taizhou City. In 2023, the Company integrated with Taizhou City Luqiao Public Asset Investment Management Group Co., Ltd., which has become its core subsidiary. The Company mainly engages in infrastructure construction, resettlement housing construction, water supply and sewage treatment businesses, as well as commercial businesses such as property development, property leasing, trading, and city operation in Luqiao District. The Company is wholly owned and directly controlled by Luqiao District State-owned Assets Working Center.

Rating Rationale

Credit Strengths

Most important position in infrastructure construction and utility services of Luqiao District. There are two primary LIIFCs in Luqiao District, LSAD and Taizhou Luqiao State-owned Assets Operations Co., Ltd. (“LSAO”), each with clear positioning in the development of the region. LSAO is mainly responsible for industrial investment and providing financial services in Luqiao District. LSAD is the largest infrastructure construction and state-owned assets operation entity by total assets in Luqiao District, mainly focusing on infrastructure construction and providing utility services in the area. Considering LSAD’s dominant position in undertaking public policy projects and essential role in public utility services in Luqiao District, we believe



that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses. As the major infrastructure construction and state-owned assets operation entity in Luqiao District, LSAD has participated in infrastructure construction, water supply and sewage treatment, local resettlement, grains collection and storage through its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure to the Company.

Good track record of receiving government payments. LSAD has a good track record of receiving support from local government in forms of projects repayment, equity transfer, financial subsidiary, debt swap, and using government special-purpose bonds. From 2020 to 2023Q1, the Company received RMB2.0 billion through equity transfer from the local government. Besides, the Company also received debt swap of RMB1.8 billion and government special-purpose bonds of RMB3.0 billion from 2020 to 2023Q1. In May 2023, equity of Taizhou Luqiao Water Improvement Investment Co., Ltd. and Taizhou Luqiao District Civil Defense Investment Development Co., Ltd. were fully transferred to Taizhou Luqiao Fuxingda Industrial Development Co., Ltd, a subsidiary of the Company. Considering the important position of LSAD and its tight relationship with the local government, we expect that the support from the local government to support LSAD will continue over the next 12 to 18 months.

Good access to fundings. LSAD has good access to fundings, reflected by its sufficient stand-by liquidity and access to direct financing. As of 31 March 2023, the Company's total credit facilities were RMB35.8 billion, of which the unutilized portion was RMB7.8 billion. The Company's subsidiaries have a track record of bond issuance in the onshore debt capital market. From 2022 to mid-2023, it had issued various bond products such as SCPs, MTNs, PPNs, and corporate bonds, raising about RMB7.3 billion, with average coupon rate of about 3%.

Credit Challenges

Medium exposure to diversified commercial activities, with manageable commercial risks. LSAD's exposure to commercial activities is medium as its commercial assets accounted for less than 30% of total asset as of 31 December 2022. The commercial businesses include property development, property leasing, city operation, tourism service, hotel operation and building materials trading. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

High debt leverage and weak asset liquidity. With the ongoing financing for the construction projects, LSAD's debt burden has continued to grow over the past three years, resulting in a high debt leverage. The Company's total debt increased from RMB34.3 billion at end-2020 to RMB45.4 billion at end-2023Q1, with a high total capitalization ratio of 63.4%. LSAD's asset liquidity is weak, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, other receivables, and construction in progress, all with low liquidity.

Rating Outlook

The stable outlook on LSAD's rating reflects our expectation that the Company will maintain its most important policy role in Luqiao District. We also expect that the Company will continue to receive ongoing government support.

What could upgrade the rating?

The rating could be upgraded if (1) Local Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially decrease in its exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Local Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its importance, materially 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 \(July 2022\)](#).

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