

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

Hong Kong, 28 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Hebei Xuankong Group Co., Ltd. (“HBXK” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of HBXK reflects the Xuanhua District Government’s relatively strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of the Xuanhua District Government’s capacity to support reflects Xuanhua District’s status as one of the top counties/districts in Zhangjiakou City in terms of economic and fiscal strength.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) important position as the largest local infrastructure investment and financing company (“LIIFC”) by total assets in the Xuanhua District; and (2) good track record of government support. However, the Company’s rating is constrained by its (1) increasing debt level driven by large investment needs; (2) concentrated funding sources from regional banks in Zhangjiakou City; and (3) medium risk from external guarantees.

Corporate Profile

Established in 2009, HBXK is the largest LIIFC in Xuanhua District in terms of asset size. It is the most important state-owned enterprise in Xuanhua District and plays an essential role in promoting the development of the local economy and society. The Company undertakes the responsibility for public infrastructure projects and welfare services, including infrastructure construction, land development, water supply and sewage treatment. HBXK also engages in some commercial activities, including commodity sales, hotel management, funeral and cemetery service. As of 30 June 2023, the State-owned Assets Supervision and Administration Bureau of Xuanhua District, Zhangjiakou City (“Xuanhua SASAB”) was the ultimate controller of the Company and held 90.13% shares of HBXK. The remaining 9.87% shares were held by 3 local state-owned enterprises in Xuanhua District, which were directly held by the local government.

Rating Rationale

Credit Strengths

Important regional position as the largest LIIFC in Xuanhua District. HBXK plays an important role in the development of Xuanhua District, given its leading role in the construction of infrastructure and land development, and provision of public services. The Company is also the largest and most important LIIFC under the control of the Xuanhua SASAB with total assets of around RMB16 billion as of end-2022.

Good track record of receiving government support. HBXK has a good track record of receiving support from the local government in terms of subsidies, special bond funds, asset

injection and equity transfer. Regarding its importance to local development, we expect the Company will receive ongoing support from the local government.

Credit Challenges

Increasing debt level driven by large investment needs. HBXK demonstrated a relatively fast debt growth during the past three years due to continuous investment in infrastructure construction projects. The Company still has large investment needs for public construction projects and commercial construction projects that under construction and planning. The Company may continue to rely on external financing such as bank loans and its total debt burden would further increase over the next 12-18 months.

Concentrated funding sources from regional banks in Zhangjiakou City. The funding sources of the Company were concentrated from regional banks in Zhangjiakou City, such as Bank of Zhangjiakou Co., Ltd. ("Zhangjiakou Bank"). As of 31 December 2022, the bank loans from Zhangjiakou Bank accounted for a large portion of both total bank loans and total debt. As the Company has participated in policy support projects, the Company has gradually obtained credit facilities and financing from other large domestic banks.

Medium risk from external guarantees. The Company bears moderate contingent risk resulting from large external guarantees. As of 31 March 2023, the Company's external guarantees amounted to RMB2.0 billion, accounting for 23.1% of its net assets, and were provided to state-owned enterprises ("SOEs"). In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

Rating Outlook

The stable outlook on HBXK rating reflects our expectation that the Xuanhua District Government's capacity to provide support will be stable, and the Company's characteristics such as its significant role in Xuanhua District will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Xuanhua District 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 significantly improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the Xuanhua District 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 reduced strategic significance, significantly increased exposure to commercial activities or deteriorated refinancing ability.



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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