

CCXAP affirms Changzhou Eastern New City Construction Group Co., Ltd's long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 7 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Changzhou Eastern New City Construction Group Co., Ltd's (“CENCC” or the “Company”) long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of CENCC reflects (1) the Changzhou Municipal Government's very strong capacity to support, and (2) the local government's high willingness to support, based on our assessment of the Company's characteristics. Our assessment of Changzhou Municipal Government's capacity to provide support given its good economic fundamentals and fiscal strengths. It also reflects the fast-growing economic of Changzhou Economic Development Zone (“Changzhou ETDZ”), with good fiscal performance.

The rating also reflects the local government's willingness to provide support, which is based the Company's (1) dominant role in public activities in Changzhou ETDZ; (2) good track record of receiving government support; and (3) good access to funding. However, the Company's rating is constrained by (1) medium exposure to commercial activities; and (2) increase in debt burden with high debt leverage.

Corporate Profile

CENCC was established by the Qishuyan District Government in December 2014. In August 2015, after Qishuyan District was merged into Changzhou ETDZ, the Company's shares were transferred to the Administrative Committee of the Jiangsu Changzhou Economic Development Zone. Meanwhile, the Company's paid-in capital increased from RMB100 million to RMB1,000 million. In April 2020, the Company's shares were transferred to Jiangsu Changzhou Eastern Investment Holding Co., Ltd (“Changzhou Eastern Investment”). CENCC is the largest infrastructure investment and financing company (“LIIFC”) in Changzhou ETDZ, and mainly engages in infrastructure construction and land consolidation. It also engages in commercial activities, such as property development, trading, and property leasing businesses. As of 31 March 2023, CENCC is indirectly and wholly owned by the State-owned Assets Supervision and Administration Commission of the Changzhou Municipal Government (“Changzhou SASAC”) through Changzhou Eastern Investment.

Rating Rationale

Credit Strengths

Dominant role in public activities in Changzhou ETDZ. CENCC is the most important LIIFC and undertakes most of the representative public projects in the Changzhou ETDZ such as infrastructure construction, land consolidation, resettlement housing, as well as sewage treatment. The Company has been commissioned by the local government to be engaged in the local economic and social development. Overall, CENCC's public service businesses are relatively sustainable given that there are abundant projects in the pipeline and are unlikely to be replaced in the foreseeable future.

Good track record of receiving government payments. CENCC has a history of receiving government cash payments, equity injections, asset injections, and government subsidies. The Company received capital injection of RMB1.2 billion in total from Changzhou Eastern Investment and local government, and operating subsidies of RMB86.4 million accumulated from the local government in 2020 to 2022. We expect that CENCC will continue to receive support from the local government in times of need, given its strategic importance to the Changzhou ETDZ.

Good access to funding and manageable liquidity risk. CENCC has good access to diversified funding, including bank loans, onshore and offshore bond markets. The Company had a relatively low exposure to financing from non-standard channels of around 4% of the total debt, while bank loans accounted for around 55% of the total debts as of 31 March 2023. CENCC's liquidity profile improved with the refinement of its debt structure. The Company's short-term debt was RMB10.4 billion, accounting for 31.2% of total debt.

Credit Challenges

Medium exposure to commercial activities. CENCC takes part in commercial activities, such as commercial housing development, leasing, and trading businesses. We estimate the Company's commercial exposure is medium at around 25% of its total assets as of end-2022. We expect the Company will not aggressively grow its commercial exposure because of its focus on the development of public projects in Changzhou ETDZ.

Increase in debt burden with high debt leverage. CENCC has demonstrated heightened debt burden with high debt leverage as a result of slow payment collections and large capital demands for the development of infrastructure and land consolidation projects. As of 31 March 2023, the Company maintained a large scale of total debt of RMB33.2 billion, increasing by RMB1.6 billion from year-end 2021, while its total capitalization ratio rose slightly from 64.4% to 64.8% over the same period.

Rating Outlook

The stable outlook on CENCC'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 provision of utility services in Changzhou ETDZ.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens significantly; and (2) the Company's characteristics change in way that strengthens the local government's willingness to provide support, such as increased strategic significance, lower exposure to risky commercial activities, and improved debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support deteriorates; and (2) the Company's characteristics change in way that weakens the local government's



willingness to provide support, such as decreased in government support or higher exposure to risky 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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