

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd., with stable outlook**

Hong Kong, 14 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd. (“UCDI” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd. (“UCDI” or the “Company”) reflects the Urumqi Economic and Technological Development Zone (“Urumqi ETDZ”) local government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key position in the state-owned assets operation and infrastructure construction of Urumqi ETDZ; (2) good track record of receiving government support; and (3) good access to multiple financing channels. However, the Company’s rating is constrained by its (1) high exposure to commercial activities; and (2) high debt leverage and moderate asset liquidity.

### **Corporate Profile**

Founded in 1992, UCDI is an important local infrastructure investment and financing company (“LIIFC”) in Urumqi ETDZ. The Company mainly engages in landscape maintenance, shantytown redevelopment, as well as part of the infrastructure construction in Urumqi ETDZ. It is also engaged in commercial businesses such as property development, property leasing, and trading. The Company is wholly owned and directly controlled by Urumqi ETDZ State-owned Assets Supervision and Administration Commission.

### **Rating Rationale**

#### **Credit Strengths**

**Key position in the state-owned assets operation and infrastructure construction of Urumqi ETDZ.** As an infrastructure construction and state-owned assets operation entity in Urumqi ETDZ, UCDI has participated in landscape maintenance, shantytown redevelopment as well as part of municipal infrastructure construction within the Urumqi ETDZ. At present, it has focused on industrial park development and state-owned assets operation, with critical role to the growth and development of Urumqi EDTZ. Considering UCDI’s key position in state-owned assets operation and infrastructure construction in Urumqi ETDZ, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

**Good access to multiple financing channels.** UCDI’s good access to multiple financing channels is reflected by its sufficient credit facilities and access to capital markets. The



Company has good relationship with multiple commercial banks and policy banks in China, such as Agricultural Development Bank of China and China Development Bank. As of 31 March 2023, the Company's total credit facilities were RMB13.1 billion, of which the unutilized portion was RMB4.7 billion. UCDI also has good access to capital markets and have issued both onshore and offshore bonds. From 2020 to mid-2023, the Company had raised RMB13.9 billion and USD60 million through corporate bonds, PPNs, MTNs, SCPs and offshore bonds. In addition, UCDI has low exposure to non-standard financing, which accounted for 2.1% of its total debts.

**Good track record of receiving government support.** UCDI has a good track record of receiving support from local government in terms of project payments, financial subsidies, and government specific bond funds. Pursuant to the payment arrangement under the Government Purchase Agreement, the Company has regularly received service fees for shantytown redevelopment from the local government, totaling RMB1.3 billion at end-2023Q1. From 2020 to 2023Q1, UCDI received financial subsidies of RMB183.0 million from the local government. As 31 March 2023, the Company received government specific bond funds of RMB1.9 billion for the industrial park development projects. Considering its pivotal and strategic role in the continuous development of the Urumqi ETDZ, we expect that the Company will continue to receive strong support from the local government in the next two to three years.

#### Credit Challenges

**High exposure to commercial activities with large capital expenditure.** With its business focus evolved from infrastructure construction to the state-owned assets operation and industrial park development, UCDI's exposure to commercial activities is high, with its commercial assets accounting for more than 30% of total asset as of 31 March 2023. The market-oriented businesses mainly include property leasing, industrial park development, property development, and trading businesses. 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 moderate asset liquidity.** With the increasing financing demand from the construction projects, UCDI's debt leverage has reached a high level. As of 31 March 2023, the Company's adjusted total debt amounted to RMB22.7 billion, with high total capitalization ratio of 68.3%. Nonetheless, the Company has a reasonable debt maturity structure. As of 31 March 2023, its short-term debt accounted for 18.1% of total debt. With considerable industrial park development projects under construction, the Company will continue to rely on external financing to meet its future capital needs. As a result, we expect that its debt leverage will remain high in the next 12 to 18 months.

**Low exposure to external guarantees, with manageable contingent liability risk.** UCDI has small exposure to external guarantees. As of 31 March 2023, UCDI's external guarantees amounted to RMB640.0 million, accounting for 6.1% of its net assets. Most of external guarantees are provided to the joint venture enterprises in Urumqi ETDZ, which have moderate



credit risks. With sufficient counter guarantee measures, we believe the Company's contingent liability risk is manageable.

### **Rating Outlook**

The Stable outlook on UCDI's rating reflects our expectation that the Company will maintain its most important policy role in Urumqi ETDZ. 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 \(July 2022\)](#).

### **Regulatory Disclosures**

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