

CCXAP upgrades Jiangsu Pingling Construction Investment Group Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Hong Kong, 11 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Jiangsu Pingling Construction Investment Group Co., Ltd. (“JPCI” or the “Company”) to BBB_g from BBB_g-, reflecting the expanded position and increased importance of the Company after the consolidation, as well as the strengthened support from Liyang City Government.

The BBB_g long-term credit rating of JPCI reflects Liyang City Government’s strong capacity to provide support and very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Liyang City’s status as one of the Top 100 counties in China, with ongoing economic growth over the past few years.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the main entity for urban-rural integration development operations, financial services and equity investment in Liyang City; (2) function in infrastructure construction in Liyang City, especially in Lianghu Innovation Zone; and (3) good track record of receiving ongoing government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities such as equity investments and finance services; (2) high investment needs and financing channels concentrated on bank financing and nonstandard financing; and (3) medium level of contingent risk.

Corporate Profile

Established in 2015, JPCI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Liyang City. In November 2022, the local government consolidated its state-owned assets and transferred the holdings of some state-owned companies to JPCI. After the consolidation, the Company is positioned as the core entity for urban-rural integration development operations, financial services and equity investment business in Liyang City, and is responsible for infrastructure construction in the Liyang Area of Lianghu Innovation Zone. Its business scope enlarged to infrastructure and settlement housing construction.

JPCI also engages in different business segments to support local economic and industrial development, including equity investment, trading business, commercial services of security, and financial services such as micro-lending, financing guarantee and fund custody. As of 31 March 2023, Liyang City Government was the ultimate controller of JPCI with direct and whole holding of the Company.

Rating Rationale

Credit Strengths

Expanded function and increased importance in Liyang City. The local government consolidated its state-owned assets in November 2022 and formed five main LIIFCs in Liyang

City. The Company's business scope has been enlarged after the consolidation, and is primarily responsible for promoting the development of local industries and conducting construction including infrastructure construction, resettlement housing, industrial parks in Lianghu Innovation Zone. The Company's position in financial business in Liyang City stays unchanged.

Good track record of receiving government support. In recognition of the strategic importance of JPCI's businesses to the development of Liyang City, the Company has received comprehensive support from the local government, in terms of capital injections, asset injections, equity transfer and operating subsidies. The Company is clarified by the local government to undertake photovoltaic and charging facilities businesses and operate relevant assets in Liyang City. We expect JPCI to receive ongoing government support given its position as one of the key state-owned enterprises in Liyang City.

Credit Challenges

Medium exposure to commercial activities such as equity investments and finance services. The Company's exposure to commercial activities accounted for less than 30% of its total assets. The Company's main exposure to commercial activities is investment risk arising from equity investment business. As the equity investments were at the initial stage of investment, the returns on investment have not been fully reflected. The Company is also exposed to certain credit contagion risks from financial services, particularly from legacy guarantee business from the past.

High investment needs mainly financed by bank borrowing and nonstandard products. The Company has large investment needs for the construction of infrastructure, resettlement housing and industrial parks in the future and it mainly relies on bank borrowing to meet its capital expenditure needs. JPCI also had certain exposure to nonstandard financing, accounting for 20%-25% of the total debt as of 31 March 2023, mainly provided by financial leasing companies.

Medium level of contingent risk. The Company's credit profile is undermined by its external guarantees, which could potentially increase its repayment obligations. As of 31 March 2023, the total amount of external guarantee (including the exposure to its guarantee business) was RMB1.7 billion. The majority of external guarantees from guarantee businesses were provided to private-owned enterprises within Liyang City. The related contingent risk exposure is still a key credit concern to JPCI's credit profile.

Rating Outlook

The stable outlook on JPCI's rating reflects our expectation that that the local government's capacity to provide support will remain stable, and the Company will maintain its important position in the development of Liyang City over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Liyang City Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local

government's willingness to provide support, such as reduced exposure to commercial activities or improved regional importance.

What could downgrade the rating?

The rating could be downgraded if (1) the Liyang City Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance or material deterioration in 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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