

CCXAP assigns first-time long-term credit rating of BBB_g- to Ningyuan Caimao State-owned Assets Operation Co., Ltd., with stable outlook.

Hong Kong, 22 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Ningyuan Caimao State-owned Assets Operation Co., Ltd., (“NCSA” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of NCSA reflects Ningyuan County Government’s (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Ningyuan County Government’s capacity to provide support reflects Ningyuan County’s important status in Yongzhou City, with ongoing economic growth and moderate fiscal stability, but constrained by its relatively small economic scale.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong market position in infrastructure construction and utility services of Ningyuan County; (2) good track record of receiving government support; and (3) reasonable debt leverage. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate asset liquidity; and (3) limited access to funding.

Corporate Profile

Established in 2017, NCSA is an important infrastructure construction and asset operation entity in Ningyuan County. As the main operator and developer in Ningyuan County, the Company plays an important role in public-related businesses, including infrastructure construction, water supply and sewage treatment, and photovoltaic power generation. The Company also undertakes commercial activities such as property leasing and tourism businesses. As of 31 December 2022, the Company was wholly owned and ultimately controlled by Ningyuan County Finance Bureau.

Rating Rationale

Credit Strengths

Strong market position in infrastructure construction and utility services of Ningyuan County. There are two main infrastructure construction entities in Ningyuan County, including NCSA and Hunan Shunyuan Development Group Co., Ltd. NCSA is mainly engaged in rural infrastructure construction, water supply and sewage treatment, photovoltaic power generation, and tourism businesses in Ningyuan County. The Company holds a majority of local utilities and tourism assets and has undertaken most of the rural infrastructure projects in Ningyuan County, making great contribution to local economic and social development.

Good track record of receiving government support. NCSA has regularly received support from Ningyuan County Government in the form of operating subsidies, special funds, capital injection, and asset transfers. In 2020, the Company received capital funds, public rental housing, and construction funds for photovoltaic power stations from the local government,

totally increasing its capital reserve by RMB1.1 billion. Given its important role in undertaking infrastructure construction projects in Ningyuan County, we believe that the local government will continue to provide support to the Company.

Reasonable debt leverage. With the support of government special funds, NCSA has a moderate debt growth and a reasonable debt leverage. The Company's total debt had increased from RMB1.8 billion at end-2020 to RMB2.8 billion at end-2022, with total capitalization ratio of 32.0%. In addition, the Company has a relatively good debt maturity structure. As of end-2022, the Company's short-term debt accounted for about 20% of total debt.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, NCSA is also engaged in commercial businesses such as property leasing, and tourism services. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 30% of its total assets. In addition, we believe that the Company's commercial business risks are manageable, as most of them are supported by government special funds.

Moderate asset liquidity. NCSA's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 December 2022, the Company's inventories accounted for 37.4% of its total asset. Furthermore, as of 31 December 2022, the Company's long-term equity investment amounted to RMB4.1 billion, accounting for 38.4% of total assets, mainly including investment in Shunyuan Development.

Limited access to funding. The Company mainly relies on bank loans for funding, with average interest rate of around 5%. It maintains good relationship with domestic commercial and policy banks, such as Agricultural Development Bank of China and Industrial and Commercial Bank of China. As of 31 December 2022, it held an available credit facility of RMB235 million. The Company plans to tap the bond markets to broaden its funding channels.

Rating Outlook

The stable outlook on NCSA's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in infrastructure construction and utility services in Ningyuan County.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in the exposure to commercial activities or strengthened access to funding.

What could downgrade the rating? The rating could be downgraded if (1) the local 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 regional significance.

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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