

CCXAP assigns first time long-term credit rating of BBB_g- to Ningguo Economic Development Holding Group Co., Ltd., with stable outlook.

Hong Kong, 27 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Ningguo Economic Development Holding Group Co., Ltd. (“NGED” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of NGED reflects the local 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 the local government’s capacity to support reflects Ningguo City having the 2nd largest gross regional production (“GRP”) among the districts or counties in Xuancheng City, and Ningguo Economic and Technological Development Zone (“Ningguo ETDZ”) being a national-level ETDZ with increasing comprehensive strength and developed industries.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) the most important local infrastructure investment and financing company (“LIIFC”) in Ningguo ETDZ; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) fast debt growth driven by continuous investment in construction projects; and (3) medium contingent liabilities risk.

Corporate Profile

Established in 2012, NGED is the most important LIIFC in Ningguo ETDZ. In May 2023, consolidated another LIIFC, Anhui Ningguo Construction Investment Group Co., Ltd. (“NGCI”), the Company became the largest one by total assets in Ningguo ETDZ. It takes responsibility for major public infrastructure and welfare projects in the region, including infrastructure construction, resettlement construction, and land consolidation in Ningguo ETDZ. Meanwhile, the Company has commercial operations, including property development, engineering construction and trading. As of 30 June 2023, the Company was directly and wholly owned by the Management Committee of Ningguo ETDZ.

Rating Rationale

Credit Strengths

The most important LIIFC in Ningguo ETDZ. NGED is the most important and the largest LIIFC in Ningguo ETDZ. It plays a dominant role in undertaking infrastructure construction in Ningguo ETDZ including road transportation, landscaping, land development and consolidation, and resettlement housing. The Company also undertakes construction of the industrial parks and standard factories through engineering construction business mode.

Good track record of receiving government support. The Company has a good track record of receiving support from the local government to support its operation in the form of equity

transfer, capital contributions, cash and asset injections, and fiscal subsidies. For example, in May 2023, the local government transferred the whole share of NGCI to the Company, which enlarged NGED's business scope and overall strength. Given the importance of NGED to local economic and industrial development, we believe the Company will continue to receive support from the local government.

Credit Challenges

Medium exposure to commercial activities. The Company's commercial activities include property development, engineering construction, trading, as well as leasing. Based on our assessment, NGED's exposure to commercial activities is medium with the assets of commercial activities accounting for from 20% to 30% of total assets.

Increasing debt burden driven by large capital expenditure. The Company showed fast debt growth due to the continuous investment in construction projects. NGED's total debt increased from RMB6.6 billion in 2020 to RMB13.8 billion in 2023H1. The Company maintained a moderate total capitalization ratio over the past three years. Considering the large uninvested amounts of construction projects, we expect the Company would continue to rely on external financing such as bank loans and its total debt burden would further increase over the next 12-18 months.

Medium contingent liabilities risk. The Company faces moderate contingent risk resulting from its external guarantees. As of 30 June March 2023, the Company's external guarantees amounted to RMB3.6 billion, accounting for 26.9% of its net assets. The external guarantees were mainly provided to the state-owned enterprises ("SOEs") in Ningguo City. The remaining 5.6% of external guarantees were provided to private-owned enterprises Anhui Zhongding Holding (Group) Co., Ltd.

Rating Outlook

The stable outlook on NGED'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 the development of Ningguo ETDZ over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities and improved in financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the 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 reduced strategic significance 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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