

CCXAP assigns first-time long-term credit rating of BBB_g- to Luzhou High-tech Investment Group Co., Ltd., with stable outlook.

Hong Kong, 13 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Luzhou High-tech Investment Group Co., Ltd. (“LHIG” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of LHIG reflects Luzhou Municipal Government’s (1) strong capacity to provide support, and (2) high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Luzhou Municipal Government’s capacity to support reflects Luzhou City’s status as an important trade and logistics center in the Chengdu-Chongqing Economic Circle and a well-known domestic alcohol industry base, with growing economic and fiscal strengths.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) key role in the infrastructure construction and high-tech industry investment in Luzhou High-Tech Industrial Development Zone (“Luzhou High-Tech Zone”); (2) solid track record of receiving government support; and (3) access to funding from banks and bond markets. However, the rating is constrained by the Company’s (1) relatively low sustainability of public projects; (2) medium exposure to commercial activities; (3) high debt leverage with certain liquidity pressure; and (4) high contingent risk arising from external guarantees.

Corporate Profile

Established in December 2013, LHIG is the sole entity responsible for local infrastructure construction in the Luzhou High-Tech Zone and the sole state-owned high-tech industry investment entity in Luzhou City. The Company is also engaged in businesses such as self-operated project construction and leasing, real estate development, and sales of building materials. As of 31 March 2023, the largest shareholder and the actual controller of the Company was the Luzhou State-owned Assets Supervision and Administration Commission (“Luzhou SASAC”), holding 45.5% of the shares of the Company.

Rating Rationale

Credit Strengths

Key role in the infrastructure construction and high-tech industry investment in Luzhou High-Tech Zone. LHIG is the only entity responsible for local infrastructure construction in Luzhou High-Tech Zone, providing a range of services including land consolidation and pipeline construction. The Company has successfully completed a series of large-scale infrastructure projects and public welfare facilities, such as schools, landscape and greening projects. In order to attract high-quality enterprises to settle in the Luzhou High-Tech Zone, the Company’s business has gradually shifted from land development and infrastructure construction to the construction of factories, office buildings and other facilities. Considering the Company’s high strategic significance to the development of Luzhou High-

tech Zone, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. The Company has a good track record of receiving support from the local government in the past few years. These supports take various forms, such as government subsidies and capital injections. In light of LHIG's important regional position in infrastructure construction and investment attraction of Luzhou High-Tech Zone, we expect the Company to receive ongoing support from the local government over the coming 12-18 months.

Access to funding from banks and bond markets. LHIG has good access to diversified funding such as bank loans and onshore bond financing, with bank loans accounting for about 47% and bonds accounting for about 31% of its total debts as of 31 March 2023.

Credit Challenges

Medium exposure to commercial activities. LHIG is also engaged in commercial activities such as self-operated construction and leasing, real estate development, sales of building materials, sales of automotive parts, and charging and natural gas business. Although the Company's commercial activities accounted for about 40% of its total assets in 2022, we consider the business risk in these commercial activities to be manageable, because some businesses are closely related to its strategic role in the industrial development of Luzhou High-tech Zone.

High debt leverage with certain liquidity pressure. With ongoing financing for its construction projects in recent years, LHIG has a high debt leverage. The Company's total debt had increased from RMB11.0 billion at end-2020 to RMB14.4 billion as of 31 March 2023, and its total capitalization amounted to 68.9%. The Company faced certain short-term debt pressure as its short-term debt accounted for around 29.9% of its total debt and its cash/short-term debt remained at 0.2x as of 31 March 2023.

High contingent risk arising from external guarantees. LHIG's credit profile is constrained by its external non-operating guarantees, which could potentially increase its repayment obligations. As of 31 March 2023, the Company had outstanding external guarantees of RMB8.0 billion, representing 122.9% of its net assets. All of them were provided to local state-owned enterprises ("SOEs").

Rating Outlook

The stable outlook on LHIG's rating reflects our expectation that the Luzhou Municipal Government's capacity to provide support will remain stable, and the Company's characteristics such as its key role in infrastructure construction in the High-Tech Zone will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Luzhou Municipal Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as materially reduced exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Luzhou Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as weakened market position, deteriorated access to fundings, or material decreased government support.

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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