

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Sichuan Zhenwei Industrial Development Group Co., Ltd., with stable outlook.**

Hong Kong, 26 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Sichuan Zhenwei Industrial Development Group Co., Ltd. (“Zhenwei” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of Zhenwei reflects Weiyuan 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 Weiyuan County Government’s capacity to support reflects that Weiyuan County is an important component of the national shale gas demonstration area, with rich shale gas resources. Its gross regional product (“GRP”) ranks 1<sup>st</sup> among 5 districts/counties in Neijiang City, but is constrained by a relatively weak fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important status as the major infrastructure construction entity in Weiyuan County; (2) good sustainability for infrastructure construction and engineering construction businesses; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) high capital expenditure pressure associated with large project reserves; (2) limited financing flexibility and relatively high financing cost; and (3) moderate asset liquidity.

### **Corporate Profile**

Founded in 2015 and formerly known as Sichuan Shengchang Equity Investment Management Co., Ltd., Zhenwei is one of the major infrastructure construction entities in Weiyuan County. It is primarily engaged in infrastructure construction and shantytown renovation in Weiyuan County. It also undertakes commercial activities such as material trading, engineering construction, and property leasing. As of 30 June 2023, the Company is wholly owned and ultimately controlled by the Weiyuan County Finance Bureau (“Weiyuan Finance Bureau”).

### **Rating Rationale**

#### **Credit Strengths**

**Major infrastructure construction entity in Weiyuan County with good sustainability for public projects.** Zhenwei is an important public infrastructure project construction entity in Weiyuan County and is mainly responsible for most of the new infrastructure construction projects. Given the sufficient amount of infrastructure projects in the pipeline, we expect the infrastructure construction business will have good sustainability but relatively large capital expenditure pressure at the same time.

**Low exposure to commercial activities.** Zhenwei is also engaged in commercial activities such as material trading, engineering construction, and property leasing. We consider the

Company's commercial business risk to be low, because its commercial activities accounted for around 15% of its total assets.

**Good track record of receiving government support.** The Company has a good track record of receiving support from the local government in the past few years, including government subsidies, cash injections, and asset injections.

#### Credit Challenges

**Relatively large short-term debt servicing pressure.** Zhenwei's total debt had increased from RMB1.9 billion at the end of 2020 to RMB3.8 billion as of 30 June 2023, while its capitalization ratio increased from 19.4% to 25% over the same period, maintained at a reasonable level. However, the Company has an unbalanced debt structure. The Company's short-term debt accounted for 41.9% as of 30 June 2023, indicating a certain liquidity pressure.

**Moderate asset liquidity.** In addition, the Company has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories, intangible assets, and receivables, accounting for 65.5% of its total assets as of 30 June 2023, which are considered low liquidity.

**Limited financing flexibility and relatively high financing cost.** As of 30 June 2023, about 94% of the Company's debt financing was provided by domestic banks, with a financing cost of around 6.0%-6.5%. However, The Company's non-standard financing costs are very high, reaching 11.5%-12.5%. Non-standard financing is less stable than bank financing, and the Company faces higher financing costs and greater refinancing pressure. The Company has a relatively high average financing cost of around 7.0%-7.5%.

#### Rating Outlook

The stable outlook on Zhenwei's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its importance in the development of Weiyuan County.

#### What could upgrade the rating?

The rating could be upgraded if (1) Weiyuan County 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 improved funding ability.

#### What could downgrade the rating?

The rating could be downgraded if (1) Weiyuan County 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 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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