

CCXAP assigns first time long-term credit rating of BBB_g- to Mengcheng Development Zone Xingmeng Investment Co., Ltd., with stable outlook.

Hong Kong, 3 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Mengcheng Development Zone Xingmeng Investment Co., Ltd. (“XMIC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of XMIC reflects (1) the Mengcheng County Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Mengcheng County Government’s capacity to provide support reflects its ongoing economic growth, but constrained by its relatively weak fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) 100% direct ownership by the Mengcheng County Government; (2) important role in the infrastructure construction and industrial development in Mengcheng County; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate access to funding; and (3) medium exposure to contingent liabilities.

Corporate Profile

Founded in 2017, XMIC is one of the core local infrastructure investment and financing companies (“LIIFCs”) in Mengcheng County. The Company is engaged in diversified businesses, such as infrastructure construction, engineering construction, land leasing, sales of construction materials, and leasing of construction materials. As of 30 June 2023, the Mengcheng County Finance Bureau was the ultimate controller of XMIC, directly holding 100% shares of the Company.

Rating Rationale

Credit Strengths

Important role in the infrastructure construction and industrial development in Mengcheng County. XMIC is one of the core LIIFCs in Mengcheng County and is directly owned by the local government. The Company plays an important role in the industrial and economic development of Mengcheng County, especially the Mengcheng County Economic Development Zone (“Mengcheng EDZ”), through largely contributing to the local infrastructures and capital attraction. The Company has introduced number of enterprises to Mengcheng County through the construction of industrial parks, forming an important contribution to the local government’s tax revenue.

Solid track record of receiving government support. XMIC has a good track record of receiving support from the local government in the form of asset injections, project repayments and government subsidies to support its operation. For example, the Company received

RMB922.0 million in cash as paid-in capital from the government in 2021. Given the Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

Credit Challenges

Medium exposure to commercial activities. XMIC is engaged in diversified commercial activities including engineering construction, construction of industrial parks and rental housing, sales of construction materials and leasing of construction materials. These commercial activities may entail higher operational and business risks than public policy activities. Based on our estimates, the Company had medium exposure to commercial activities, which accounted for less than 30% of its total assets.

Moderate access to funding. XMIC has moderate access to funding constrained by its small operating scale. It relies highly on indirect financing and has limited access to the domestic debt market. The debt from bank loans accounted for a majority of the total debt. As of the end of June 2023, non-standard financing borrowing accounted for around 15% of total debts with relatively high costs. The Company expanded its funding channels and successfully issued two tranches of offshore bonds in July and August 2023.

Medium exposure to contingent liabilities. As of 30 June 2023, XMIC had external guarantees of RMB1.5 billion, accounting for around 29.0% of its net assets. The guarantees are provided to other LIIFCs in Mengcheng County. In case a credit event occurs, the Company may face large-scale cross-effects risks. Nevertheless, we believe that the contingent risk of the external guarantee is moderately controllable, considering the position of these state-owned enterprises in Mengcheng County.

Rating Outlook

The stable outlook on XMIC's rating reflects our expectation that Mengcheng County Government's capacity to provide support will remain stable, and that the Company will maintain its important position in the development of Mengcheng County over the next 12 to 18 months.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Mengcheng County 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 or material deteriorated 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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