

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Qihe Urban Investment Construction Group Co., Ltd, with stable outlook.**

Hong Kong, 11 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB<sub>g</sub>- to Qihe Urban Investment Construction Group Co., Ltd (“QUIC” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of QUIC reflects (1) Qihe County Government’s relatively strong capacity to provide support, and (2) the local government’s extremely strong willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Qihe County Government’s capacity to provide support reflects its status as the largest county by gross regional product (“GRP”) in Dezhou City, with fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant position in public services of Qihe County; (2) good track record of receiving government payments; and (3) good access to funding. However, the Company’s rating is constrained by (1) moderate exposure to commercial businesses; and (2) fast debt growth and moderate asset liquidity.

### **Corporate Profile**

Founded in April 2008, QUIC is the sole infrastructure construction entity in Qihe County, primarily undertaking municipal projects such as infrastructure construction, land development, shantytown renovation, and heat supply businesses. It is also engaged in commercial businesses such as properties leasing, trading of building materials, and operation of a toll bridge. In November 2021, the Qihe County People’s Government State-owned Assets Supervision and Administration Bureau (“Qihe SASAB”) transferred all share-holdings of Qihe Urban Management and Construction Investment Co., Ltd. (“QUMC”) to the Company as a capital contribution. As of end-2021, the Company was wholly and ultimately controlled by Qihe SASAB, with a registered capital of RMB5.0 billion.

### **Rating Rationale**

#### **Credit Strengths**

**Dominant position in public services of Qihe County.** As the dominant infrastructure construction entity in Qihe County, QUIC mainly provides public services through its subsidiary QUMC pursuant to local urban development plans. The Company is responsible for the infrastructure construction, land consolidation, shantytown renovation, and heat supply in Qihe County, which are crucial to local economic and social development. Given its important role in local public welfare, we believe that the Company is unlikely to be replaced in the foreseeable future.

**Good track record of receiving government payments.** QUIC has a proven track record of receiving government support in the form of asset transfer, capital injection, and operating

subsidies. We believe that, given the important position of QUIC and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

**Good access to funding.** The Company has access to multiple financing channels, including bank loans and bond issuances. It has maintained a good relationship with policy banks and large state-owned commercial banks, including China Development Bank, Agricultural Development Bank of China and Agricultural Bank of China. The Company's subsidiary QUMC has raised RMB3.7 billion in the onshore bond market from 2020 to 2021. In addition, the Company has relatively low reliance on non-standard financing.

### Credit Challenges

**Moderate exposure to commercial business activities.** QUIC has also been engaged in diversified commercial activities, mainly including residential property development, properties leasing, operation of a toll bridges, and trading businesses. Although the commercial activities can bring in supplemental income, they may also pose certain operating risks to the Company. We estimate that the Company's exposure to commercial businesses is moderate, accounting for 25% to 30% of its total assets at end-2021.

**Fast debt growth and moderate asset liquidity.** Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. Its total debt increased from RMB4.8 billion at end-2019 to RMB14.2 billion at end-2021, with a manageable total capitalization ratio of 37.9%. Besides, the Company's inventory increased significantly from RMB5.3 billion at end-2019 to RMB16.0 billion at end-2021, accounting for 38.5% of total assets, mainly due to the ongoing investments in resettlement housing construction and self-owned projects. A moderate asset liquidity may undermine the Company's financing flexibility.

### Rating Outlook

The stable outlook on QUIC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important strategic position of infrastructure construction and public utility services in Qihe County.

#### 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 strengthens the local government's willingness to provide support, such as improved debt management.

#### 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 decrease in government payments, or deterioration in 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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