

Credit Opinion

29 April 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

Analyst Contacts

Jonathan Kwong +852-2860 7133

Credit Analyst

jonathan_kwong@ccxap.com

Jacob Hu +852-2860 7132

Assistant Credit Analyst

jacob_hu@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Xiapu County State-owned Assets Investment and Operation Co., Ltd.

Surveillance credit rating report

CCXAP affirms Xiapu County State-owned Assets Investment and Operation Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Xiapu County State-owned Assets Investment and Operation Co., Ltd. ("XSAI" or the "Company") reflects Xiapu 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 Xiapu County Government's capacity to provide support reflects Xiapu County's economic importance in Ningde City but is constrained by its relatively small economic scale.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important policy role as the most important infrastructure construction entity and the sole public utility services provider in Xiapu County; (2) good track record of receiving government support; (3) reasonable debt leverage.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) moderate asset liquidity; and (3) rapid debt growth and limited access to funding, with relatively high reliance on non-standard financing.

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

Rating Drivers

- Important policy role as the most important infrastructure construction entity and the sole public utility services provider in Xiapu County
- Medium exposure to commercial activities
- Good track record of receiving government support
- Rapid debt growth albeit reasonable debt leverage
- Moderate asset liquidity
- Limited access to funding, with relatively high reliance on non-standard financing

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 decrease in its strategic significance; decrease in government payments; or increase in debt leverage.

Key Indicators

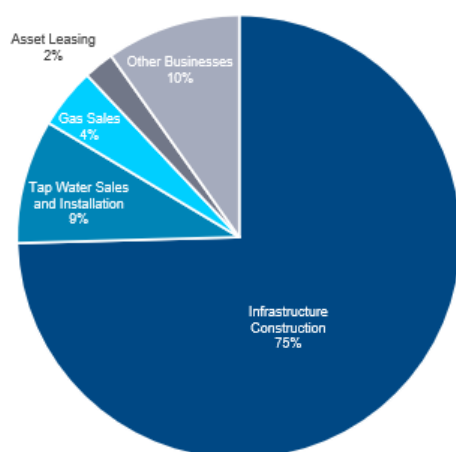
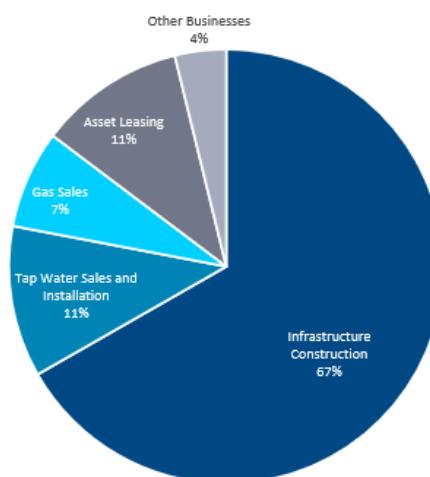
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	14.5	18.8	21.3	21.9
Total Equity (RMB billion)	10.3	10.5	10.7	11.0
Total Revenue (RMB billion)	0.7	0.9	0.7	0.5
Total Debt/Total Capital (%)	16.1	22.3	26.6	27.1

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 1997, XSAI is the most important local infrastructure construction and state-owned capital operation entity in Xiapu County. The Company is mainly responsible for infrastructure construction projects in Xiapu County. It also provides key public utility services in Xiapu County, including natural gas and water supply. In addition, the Company is also engaged in commercial activities such as property leasing and material trading businesses. As of 30 September 2024, the Company was wholly owned and ultimately controlled by Xiapu County State-owned Assets and Financial Service Center ("Xiapu SAFSC").

Exhibit 1. Revenue Structure in 2023**Exhibit 2. Gross Profit Structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Xiapu County Government has a relatively strong capacity to provide support, given its economic importance in Ningde City, but is constrained by its relatively small economic scale.

Fujian Province is located on the southeastern coast of China and is recognized as one of the provinces with the fastest economic development in China. In 2024, Fujian recorded a gross regional product ("GRP") of RMB5.8 trillion, with a GRP growth rate of 5.5% year-on-year ("YoY"), ranking 8th in terms of GRP among all provinces in China. Its general budgetary revenue achieved RMB361.5 billion in 2024.

Ningde City is a prefecture-level city administrated under Fujian Province and one of the top 100 cities in China. Ningde City has four pillar industries, including lithium battery new energy, new energy vehicles, new stainless-steel materials, and copper materials. In recent years, benefiting from the development of Contemporary Amperex Technology Co., Ltd and the introduction of upstream and downstream new energy industry chains, Ningde City experienced fast economic growth before slowing down in 2024 due to the slowdown in industrial growth and over-concentration in the new energy sector. The GRP of Ningde City increased from RMB380.7 billion in 2023 to RMB390.2 billion in 2024, with a GRP growth rate of 1.1% YoY. It has moderate fiscal stability, with tax revenue accounting for 77.0% of its general public budget revenue in 2024. It also has a moderate fiscal balance, with a general budgetary revenue/general budgetary expenditure ratio of 51.7% in 2024. Its debt burden is moderate. In 2024, the local government's outstanding debt grew to RMB112.0 billion, accounting for 28.7% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Ningde City

	2022FY	2023FY	2024FY
GRP (RMB billion)	355.5	380.7	390.2
GRP Growth (%)	10.7	8.6	1.1
General Budgetary Revenue (RMB billion)	16.7	21.0	25.5
General Budgetary Expenditure (RMB billion)	35.7	40.5	45.2
Local Government Debt (RMB billion)	81.3	91.7	112.0

Source: Statistics Bureau of Ningde City, CCXAP research

Located in the east of Ningde City, Xiapu County is a county-level city under the jurisdiction of Ningde City, covering a total area of 1,489.6 square kilometers. Xiapu County's GRP increased from RMB37.2 billion in 2023 to RMB38.2 billion in 2024, ranking 4th among 9 districts/counties in Ningde City, with a GRP growth rate of 2.1%. Its general budgetary revenue increased slightly from RMB2.4 billion in 2023 to RMB2.5 billion in 2024. However, it has weak fiscal stability, with tax revenue accounting for 39.8% of its general public budget revenue in 2024. Since 2022, the government has implemented an asset revitalization policy, transferring concession rights for parking spaces and sea area use rights, leading to increased non-tax revenue. Its fiscal balance is relatively weak, with a general budgetary revenue/general budgetary expenditure ratio of 48.7% in 2024, and the regional general public budget revenue relies heavily on transfer payments from higher-level governments. In addition, the Xiapu County Government has a moderate debt profile, with an outstanding government debt of RMB11.6 billion at end-2024, accounting for 30.3% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Xiapu County

	2022FY	2023FY	2024FY
GRP (RMB billion)	35.4	37.2	38.2
GRP Growth (%)	13.6	2.3	2.1
General Budgetary Revenue (RMB billion)	2.3	2.4	2.5
General Budgetary Expenditure (RMB billion)	3.7	5.3	5.1
Local Government Debt (RMB billion)	7.4	8.8	11.6

Source: Statistics Bureau of Xiapu County, CCXAP research

Government's Willingness to Provide Support

Important policy role as the most important infrastructure construction entity and the sole public utility services provider in Xiapu County

There are two key local infrastructure investment and financing companies ("LIIFCs") in Xiapu County, XSAI and Xiapu County Funing Ocean Investment and Development Co., Ltd. ("XCOI"). XSAI is the most important LIIFC with the largest asset size in Xiapu County, and is mainly responsible for local infrastructure construction projects as well as public utility services in Xiapu County. Given its strong regional importance in Xiapu County, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future. In addition, the abundant construction projects under the pipeline can ensure the business sustainability of the Company.

The Company is authorized by the government to undertake urban infrastructure construction projects, including roads, bridges, and other public facilities. As of end-2023, the Company had 24 infrastructure construction projects under construction, with a total estimated investment of RMB11.8 billion and an outstanding amount of around RMB7.1 billion. The large number of projects can ensure business sustainability, but it can exert certain capital expenditure pressure on the Company.

The Company provides water supply and equipment installation services to local residents and enterprises in Xiapu County. As the sole water supplier in Xiapu County, the Company provides tap water to over 70 thousand residents in Xiapu County. Benefited from the increasing water supply capacity, pipeline network length, and number of users, the revenue of the water business increased by 26.4% YoY in 2023. The Company also provides bottled gas to residents in the old urban area of Xiapu County. It offers gas supply services to about 35 thousand households in Xiapu County. With the rapid development of Xiapu County's tourism industry, the

demand for gas in related sectors such as catering has increased, leading to sustained growth in bottled gas sales.

Medium exposure to commercial activities

Apart from the public policy activities, XSAI also participates in commercial activities such as self-operated projects, property leasing, and trading businesses. We consider the Company's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets. Some commercial activities, such as affordable housing and highway construction, are converted to self-operated models, but due to their policy nature, the business risks are controllable.

The Company is engaged in property projects and has received income mainly through the sales of affordable housing projects. As of end-2023, it has a shantytown reconstruction project under construction, with a total estimated investment of RMB328.0 million and an outstanding amount of around RMB186 million. In addition, the Company also conducts commercial housing construction projects under the cooperative development model. The Company cooperates with a subsidiary of Xiamen C&D Group Co., Ltd. to develop commercial housing projects such as the Wangchao Garden project, with a total estimated investment of RMB1.3 billion and an outstanding amount of around RMB365.0 million as of end-2023. The sales of the cooperative property projects will provide supplementary income to the Company, but are susceptible to the recent downturn in the real estate market.

XSAI also engaged in self-operated projects. As of end-2023, there was a major highway project under construction, with a total investment amount of RMB6.5 billion and an outstanding amount of around RMB3.7 billion. The funding of the project comes from special funds, fiscal funds, as well as special bonds. The Company will operate the project under a government loan repayment model upon project completion and will achieve debt repayment and revenue generation through collecting road tolls. As of end-2023, the Company also had a water supply integration project under construction, with a total estimated investment of RMB1.2 billion and an outstanding amount of around RMB901.0 million; it also had 6 reservoir projects under planning with a total expected investment amount of RMB1.2 billion.

Moreover, the Company also owns a large amount of leasable state-owned properties, such as office buildings and shops, providing supplementary income to the Company. As of end-2023, the Company's investment properties available for lease have a total leasable area of approximately 58,000 square meters with an occupancy rate of over 90%. Affected by market conditions, both the occupancy rate and rental prices declined in 2023, leading to a decrease in rental income for the year.

Other business segments, including material sales, charging pile revenue, pest control income, slaughterhouse processing revenue, and financial guarantee, provide supplementary revenue and profit streams. However, their limited scale constrains their overall contribution to the total revenue.

Good track record of receiving government support

As the most important infrastructure construction and state-owned capital operation entity in Xiapu County, XSAI has a proven track record of receiving government support in the form of cash injections, equity transfers, financial subsidies, and special bond funds. In 2023, the Company received a cash injection of RMB21.0 million from the local government. From 2021 to 2023, the Company received a total government subsidy of RMB415.0 million. The local government also provides repurchase payments to the Company for the completed agency projects. Additionally, as of end-2023, the Company had received RMB3.4 billion in special bond funds for

project construction. Given the Company's strong position in undertaking infrastructure construction projects in Xiapu County, we expect the local government will continue to support the Company in the future.

Rapid debt growth albeit reasonable debt leverage

XSAI's debt burden has increasingly grown over the past year, due to the ongoing financing for the construction projects. The Company's total debt had increased from RMB3.0 billion at end-2022 to RMB4.1 billion at end-2024Q3, with a reasonable total capitalization ratio of around 27.1%. Moreover, the Company has a reasonable debt structure. As of 30 September 2024, the short-term debt accounted for about 13.7% of total debt, and its cash-to-short-term-debt ratio was 4.2x, indicating sufficient monetary funds to cover the short-term debt repayment. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow but remain at a manageable level in the next 12 to 18 months.

In addition, the Company is exposed to a low contingent liability risk. As of end-2023, the Company recorded an external guarantee amount of RMB619.0 million, accounting for 5.8% of its total equity. All of it was provided to the local state-owned enterprises.

Moderate asset liquidity

XSAI has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2024, the Company's total assets mainly consisted of inventories, investment properties, and construction in progress, accounting for 67.5% of its total assets. Inventories primarily consist of contract costs for agency construction projects. Nevertheless, it has investment properties valued at RMB3.8 billion for leasing, providing stable supplementary income to the Company. As of end-2023, the Company had pledged assets of RMB2.4 billion for loans, accounting for 11.1% of total assets.

Limited access to funding, with relatively high reliance on non-standard financing

The Company mainly relies on bank loans for funding, which accounted for 74.7% of total debt as of end-2023. It maintains good relationships with domestic commercial and policy banks, such as the Agricultural Development Bank of China and China Development Bank, with costs of bank loans ranging from 3.5% to 5.3%. As of end-2023, it had obtained total credit facilities of RMB5.6 billion, with an unutilized amount of RMB1.9 billion. The Company has not issued bonds in the public market. In addition, the Company also has lending through non-standard financing channels and lending from other state-owned enterprises, which accounted for 25.3% of total debt.

ESG Considerations

XSAI assumes environmental risks through its infrastructure construction projects as well as water and natural gas provision. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, XSAI has played a crucial role in the social welfare of Xiapu County by involving the public utility services, such as water provision and security services in Xiapu County.

In terms of corporate governance, XSAI's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Copyright © 2025 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656