

Credit Opinion

22 September 2023

Ratings

Senior Unsecured Debt Rating	BBB _g -
Long-Term Credit Rating	BBB _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Ningyuan Caimao State-owned Assets Operation Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Ningyuan Caimao State-owned Assets Operation Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Ningyuan Caimao State-owned Assets Operation Co., Ltd. (“NCSA” or the “Company”) reflects Ningyuan 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 Ningyuan County Government’s capacity to provide support reflects Ningyuan County’s important status in Yongzhou City, with ongoing economic growth and moderate fiscal stability, but 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) strong market position in infrastructure construction and utility services of Ningyuan County; (2) good track record of receiving government support; and (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) limited access to funding.

The stable outlook on NCSA’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important role in infrastructure construction and utility services in Ningyuan County.

Rating Drivers

- Strong market position in infrastructure construction and utility services of Ningyuan County
- Medium exposure to commercial activities
- Good track record of receiving government support
- Reasonable debt leverage
- Moderate asset liquidity
- Limited access to funding

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 reduction in the exposure to commercial activities or strengthened access to funding.

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 reduced regional significance.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	8.2	9.5	10.7
Total Equity (RMB billion)	5.6	5.8	5.9
Total Revenue (RMB billion)	0.2	0.2	0.2
Total Debt/Total Capital (%)	24.6	29.1	32.0

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

Source: CCXAP research

Corporate Profile

Established in 2017, NCSA is an important infrastructure construction and asset operation entity in Ningyuan County. As the main operator and developer in Ningyuan County, the Company plays an important role in public-related businesses, including infrastructure construction, water supply and sewage treatment, and photovoltaic power generation. The Company also undertakes commercial activities such as property leasing and tourism businesses. As of 31 December 2022, the Company was wholly owned and ultimately controlled by Ningyuan County Finance Bureau.

Exhibit 1. Revenue Structure in 2022

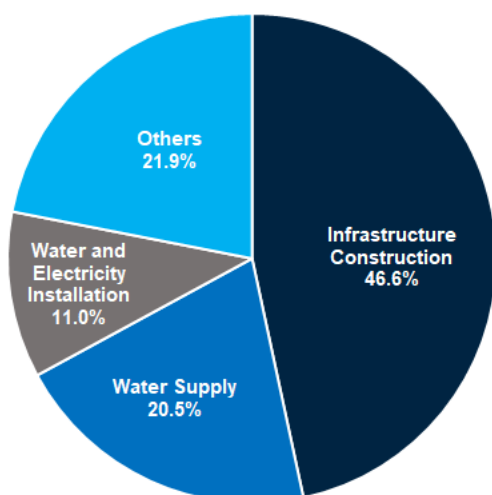
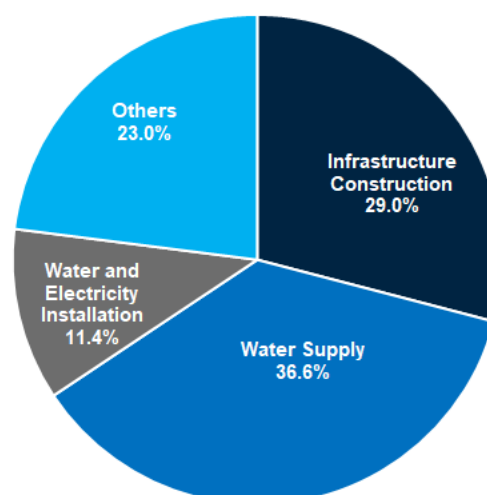


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Ningyuan County Government has a strong capacity to provide support, given its important status in Yongzhou City, with ongoing economic growth and moderate fiscal stability, but constrained by its relatively small economic scale.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2022, the GRP of Hunan Province was RMB4.9 trillion, ranking 9th among all provinces in China. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB310.2 billion in 2022 from RMB325.1 billion in 2021, with tax revenue accounting for 64.6% of its general public budget revenue.

Yongzhou City is a prefecture-level city administrated under Hunan Province. It is a national historical city as well as a national forest city. Yongzhou City has three pillar industries including modern agriculture, manufacturing, and modern service industry. Yongzhou's GRP reached RMB241.0 billion in 2022, as compared with RMB210.8 billion in 2020. Despite the impact of the COVID-19 pandemic, Yongzhou was still able to maintain a good economic growth rate of 5.1% in 2022. In 2022, Yongzhou reported a general budgetary revenue of RMB15.4 billion, with tax income accounting for 71% of its fiscal revenue, representing a relatively good fiscal stability. At the end of 2022, Yongzhou's local government debt balance was RMB75.8 billion, accounting for 31.4% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Yongzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	210.8	226.1	241.0
GRP Growth (%)	3.9	7.5	5.1
General Budgetary Revenue (RMB billion)	12.9	14.4	15.4
General Budgetary Expenditure (RMB billion)	50.1	49.4	52.5

Local Government Debt (RMB billion)	51.1	63.1	75.8
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Source: Statistics Bureau of Yongzhou City, CCXAP research

Located in the south of Yongzhou City, Ningyuan County has jurisdiction over 16 towns and 4 subdistricts, covering a total area of 2,510 square kilometers. Ningyuan County has demonstrated ongoing economic growth over the past three years. Its GRP increased from RMB23.2 billion in 2020 to RMB26.7 billion in 2022, ranking third among the districts/counties in Yongzhou City. Its general budgetary revenue also increased steadily from RMB1.5 billion in 2020 to RMB1.7 billion in 2022. It has moderate fiscal stability, with tax revenue accounting for 70.2% of its general public budget revenue on average over the past three years. However, Ningyuan County has a relatively weak fiscal balance, and relies on transfer payments from upper-tier government and sale of land-use rights. In addition, the Ningyuan County Government has outstanding government debt of RMB6.6 billion at end-2022, accounting for 24.6% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Ningyuan County

	2020FY	2021FY	2022FY
GRP (RMB billion)	23.2	25.2	26.7
GRP Growth (%)	4.1	8.8	4.9
General Budgetary Revenue (RMB billion)	1.5	1.6	1.7
General Budgetary Expenditure (RMB billion)	5.4	5.7	6.1
Local Government Debt (RMB billion)	3.7	5.0	6.6

Source: Statistics Bureau of Ningyuan County, CCXAP research

Government's Willingness to Provide Support

Strong market position in infrastructure construction and utility services of Ningyuan County

There are two main infrastructure construction entities in Ningyuan County, including NCSA and Hunan Shunyuan Development Group Co., Ltd. ("Shunyuan Development"). Shunyuan Development is responsible for urban infrastructure construction, resettlement housing construction, and property development in Ningyuan County. NCSA is mainly engaged in rural infrastructure construction, water supply and sewage treatment, photovoltaic power generation, and tourism businesses in Ningyuan County. The Company also holds 49% equity interests of Shunyuan Development. The Company holds a majority of local utilities and tourism assets and has undertaken most of the rural infrastructure projects in Ningyuan County, making great contribution to local economic and social development. Given its strong market position in Ningyuan County, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

The Company undertakes infrastructure construction projects through its subsidiary under agency construction model. Upon completion of construction, the entrusting parties will settle with the Company based on investment costs plus a certain percentage of markup. As of 31 December 2022, the Company has 8 agent construction projects under construction, with a total estimated investment of RMB2.5 billion and uninvested amount of RMB953.5 million.

NCSA is the sole water supply and sewage treatment services provider in Ningyuan County, providing stable income for the Company. The Company provides water and sewage treatment services to all the residents in Ningyuan County through three water supply plants and water pipe network of 160 kilometers, with a daily water supply capacity of 90,000 cubic meters. As of 31 December 2022, the Company had invested RMB289.6 million into three projects under construction, with uninvested amount of RMB370.4 million. Due to the public welfare

nature of the business, the local government has provided subsidies and special funds to support its daily operation and project construction.

The Company also participates in the photovoltaic power generation business. As of end-2022, it had built 25 photovoltaic power stations in Ningyuan County, with a total installed capacity of 17MW, making great efforts on poverty alleviation in rural areas. Due to the poverty relief function of the business, the local government also provided capital funds to support the construction of photovoltaic power stations.

Medium exposure to commercial activities

In addition to public activities, NCSA is also engaged in commercial businesses such as property leasing, and tourism services. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 30% of its total assets. In addition, we believe that the Company's commercial business risks are manageable, as most of them are supported by government special funds.

NCSA's tourism business mainly involves scenic spots operation, tourism services, and hotel operation. The Company operates various scenic spots in Ningyuan County, including two national 4A scenic spots and three national 3A scenic spots. Relying on the popularity of the scenic spots, this business provides stable supplemental revenue for the Company. However, the profitability of this business is relatively low, and the local government has provided certain subsidies to support the business operations. As of end-2022, the Company had 6 tourism projects under construction with total estimated investment of RMB1.7 billion and uninvested amount of RMB554.8 million, some of which are supported by the local government with special bond funds.

The Company also involved in leasing of pig farms through its subsidiary. As of end-2022, the Company had leased out 2 pig farms, with total area of 606 mu. The lease tenor is as long as 15 years, providing stable long-term rental income to the Company. In 2022, the revenue from this business amounted to RMB16.8 million, accounting for around 8% for the total revenue. The Company is conducting the construction of a pig farm project, which could increase the leasable area of 1,000 mu after completion of construction. As of end-2022, the Company had invested RMB68.6 million into the project, with uninvested amount of RMB431.4 million. The local government has also provided special bond funds to support the project construction.

Good track record of receiving government support

NCSA has regularly received support from Ningyuan County Government in the form of operating subsidies, special funds, capital injection, and asset transfers. In 2020, the Company received capital funds, public rental housing, and construction funds for photovoltaic power stations from the local government, totally increasing its capital reserve by RMB1.1 billion. In 2021 and 2022, the local government totally injected capital of about RMB196 million into the Company's subsidiary Ningyuan Tourism Construction Investment Co., Ltd., supporting the tourism business of the Company. As most of the Company's construction projects are key projects in Ningyuan County, the local government has provided special funds to support the project construction. In 2022, the Company received special funds of RMB352 million from the local government. From 2020 to 2022, the Company totally received government subsidies of RMB182 million. Given its important role in undertaking infrastructure construction projects in Ningyuan County, we believe that the local government will continue to provide support to the Company.

Reasonable debt leverage

With the support of government special funds, NCSA has a moderate debt growth and a reasonable debt leverage. The Company's total debt had increased from RMB1.8 billion at end-2020 to RMB2.8 billion at end-

2022, with total capitalization ratio of 32.0%. In addition, the Company has a relatively good debt maturity structure. As of end-2022, the Company's short-term debt accounted for about 20% of total debt. However, given its ongoing financing for the construction projects, we expect the Company's debt burden will increase in the next 12 to 18 months.

Moderate asset liquidity

NCSA's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 December 2022, the Company's inventories accounted for 37.4% of its total asset. Inventories are mainly land and investment costs for infrastructure construction projects, both of which are considered as low liquidity. Furthermore, as of 31 December 2022, the Company's long-term equity investment amounted to RMB4.1 billion, accounting for 38.4% of total assets, mainly including investment in Shunyuan Development. Nonetheless, the investment in Shunyuan Development has provided stable investment income to the Company.

Limited access to funding

The Company mainly relies on bank loans for funding, with average interest rate of around 5%. It maintains good relationship with domestic commercial and policy banks, such as Agricultural Development Bank of China and Industrial and Commercial Bank of China. As of 31 December 2022, it held an available credit facility of RMB235 million. The Company plans to tap the bond markets to broaden its funding channels.

ESG Considerations

NCSA faces environmental risks because it has undertaken infrastructure construction and water supply projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

NCSA bears social risks as it implements public policy initiatives by undertaking infrastructure construction and water provision in Ningyuan County. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

NCSA's governance considerations are also material as the Company is subject to oversight by the Ningyuan County Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

NCSA's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its strong market position in the rural infrastructure construction and water utilities of Ningyuan County, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

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