

Credit Opinion

9 November 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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Peixian Urban Construction Investment Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns the first-time long-term credit rating of BBB_g to Peixian Urban Construction Investment Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Peixian Urban Construction Investment Development Group Co., Ltd. (“PXUC” or the “Company”) reflects (1) the Pei County Government’s 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 the Pei County Government’s capacity to provide support reflects its increasing economic strength, but constrained by relatively weak fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in the urban and industrial development of Pei County; (2) good track record of receiving government support; and (3) diversified funding channels.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden driven by large investment needs; and (3) moderate asset liquidity and medium level of contingent risk.

The stable outlook on PXUC’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its important role in the urban and industrial development of Pei County over the next 12-18 months.

Rating Drivers

- Important role in the urban and industrial development of Pei County
- Medium exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Diversified funding channels
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Pei 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 improved debt management and reduction in the exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) the Pei 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 policy significance or material increase in commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	40.2	52.2	61.0	65.2
Total Equity (RMB billion)	14.5	18.4	21.4	21.7
Total Revenue (RMB billion)	2.9	4.0	4.1	2.2
Total Debt/Total Capital (%)	58.6	59.8	60.2	63.5

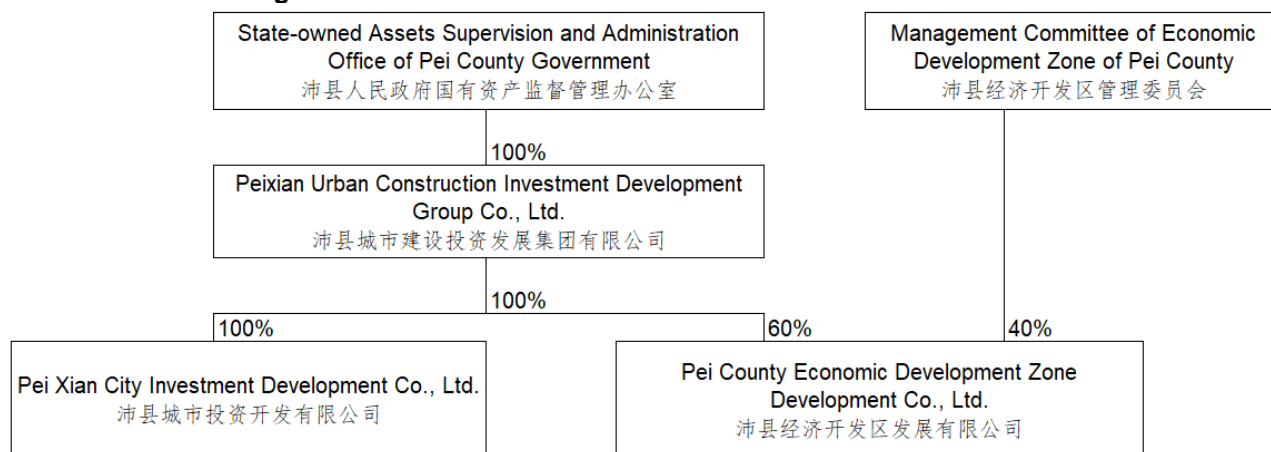
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Established in 2021, PXUC is one of the key local infrastructure investment and financing companies ("LIIFCs") in Pei County. The local government has transferred 100% shares of Pei Xian City Investment Development Co., Ltd. ("PXCD") and 60% shares of Pei County Economic Development Zone Development Co., Ltd. ("PCED") to the Company since its establishment. PXUC is positioned as an important entity for the construction of urban infrastructure and operation of urban resources. It is engaged in different businesses in Pei County through its subsidiaries, which include infrastructure construction, resettlement housing, land consolidation, industrial park construction, property development, leasing, and commodity sales. As of 30 June 2023, the Company was wholly owned by the State-owned Assets Supervision and Administration Office of Pei County Government ("Pei County SASAO").

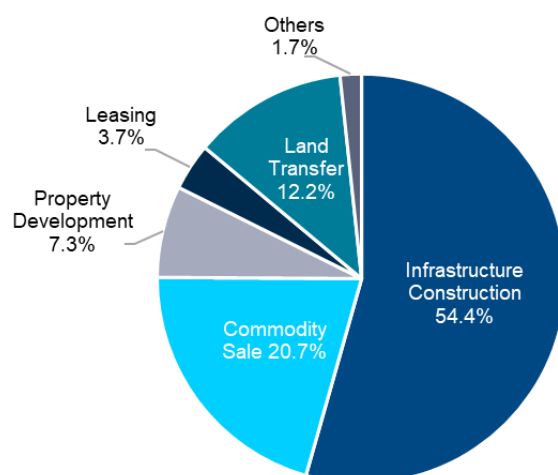
Exhibit 1. Shareholding chart as of 30 June 2023



This chart only displays the key subsidiaries of PXUC.

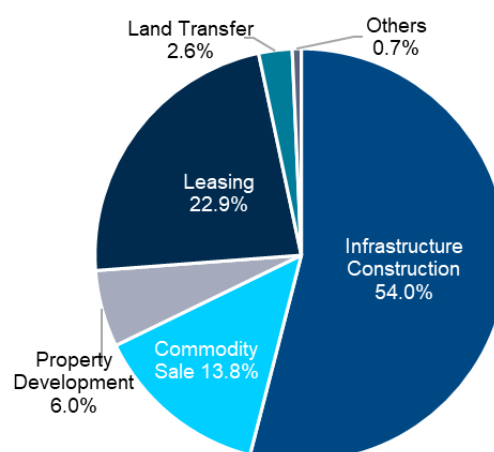
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Pei County Government has a strong capacity to provide support to the Company, given its ongoing economic growth over the past few years. However, its fiscal balance is relatively weak.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2022, its total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP for the same period was RMB144,390, ranking first among all provinces in China.

Xuzhou City is a prefecture-level city administrated under Jiangsu Province and located in in the northern part of Jiangsu Province. It is a comprehensive transportation hub, with a total area of 11,765 square kilometers. From 2020 to 2022, Xuzhou City's economic strength improved steadily with GRP increasing to RMB845.8 billion from RMB732.0 billion, ranking 6th among all prefecture-level cities in Jiangsu Province. Affected by the tax rebate policy, Xuzhou Municipal Government's general budgetary revenue in 2022 decreased to RMB51.7

billion. Tax revenue is a stable source of general budgetary revenue, accounting for over 75% over the past three years. However, the fiscal balance ratio kept at a relatively low level of around 50% over the past three years. Its outstanding government debt amounted to RMB152.2 billion at end-2022, accounting for about 12.8% of GRP.

Exhibit 4. Key economic and fiscal indicators of Xuzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	732.0	811.7	845.8
GRP Growth (%)	3.4	8.7	3.2
General Budgetary Revenue (RMB billion)	48.2	53.7	51.7
General Budgetary Expenditure (RMB billion)	95.8	100.4	103.2
Local Government Debt (RMB billion)	117.4	133.2	152.2

Source: Xuzhou Municipal Government, CCXAP research

Pei County is located in the northwest of Xuzhou City, with a total area of 1,806 square kilometers. The local government actively promotes the upgrades of the three traditional pillar industries, which are coal coke electricity, metallurgy and casting, and textile industries. It also developed two featured industries, namely new energy and new aluminum material industries. Benefiting from its improved industrial structure, the GRP of Pei County increased steadily to RMB101.2 billion in 2022, a YoY increase of 4.0%, ranking 3rd in Xuzhou City. Pei County Government's fiscal strength also improved along with the economic growth. In 2022, the general budgetary revenue amounted to RMB5.0 billion, of which tax revenue, a relatively stable income source, represented 78.0%. If excluding the effect of tax rebate, the general budgetary revenue increased by 3.1%. However, the Pei County Government's self-sufficiency remained relatively weak. In 2022, its fiscal self-sufficiency ratio (general budgetary revenue/ general budgetary expenditure) was recorded at 38.9%. It relies highly on transfer payments and tax refunds from high-tier governments to balance its fiscal budget. As of end-2022, Pei County Government's outstanding debt amounted to RMB13.0 billion, accounting for about 12.8% of GRP.

Exhibit 5. Key economic and fiscal indicators of Pei County

	2020FY	2021FY	2022FY
GRP (RMB billion)	80.5	92.6	101.2
GRP Growth (%)	3.9	8.9	4.0
General Budgetary Revenue (RMB billion)	4.6	5.1	5.0
General Budgetary Expenditure (RMB billion)	12.1	12.8	12.9
Local Government Debt (RMB billion)	10.6	11.5	13.0

Source: Pei County Government, CCXAP research

Established in 2001, Pei County Economic Development Zone ("Pei County EDZ") was approved as a provincial-level development zone by the Jiangsu Provincial Government in 2006, with a total planned area of 70 square kilometers. Pei County EDZ has formed six core industries, including green food, modern textile, irrigation and drainage equipment, new aluminum, photovoltaic and optoelectronic, and modern service industries. Most industrial enterprises in Pei County were settled in Pei County EDZ, which has made a great contribution to the economic development of Pei County.

Government's Willingness to Provide Support

Important role in the urban and industrial development of Pei County

PXUC is one of the key LIIFCs and the largest one by total assets of the Pei County Government. As an essential entity for urban construction and operation, the Company is mainly responsible for infrastructure construction, resettlement housing construction, industrial park construction and land consolidation in the new town area and Pei County EDZ. Considering its large project reserves, we believe that the potential substitution of PXUC is relatively low and the Company is expected to maintain its importance for Pei County Government.

PXUC is responsible for infrastructure construction and resettlement housing in the new town area of Pei County and Pei County EDZ through its subsidiaries, PXCD and PCED. PCED is the sole entity for the infrastructure construction and resettlement housing in Pei County EDZ.

PXUC undertakes infrastructure construction by signing construction agreements with the local government and carrying out the construction work accordingly. The local government would make payments to the Company based on the actual cost plus a markup in return. The Company completed a number of projects, such as expressway construction and river regulation. As of 31 March 2023, the Company also had 6 projects under construction and 4 projects under planning, with a total outstanding investment of RMB672 million.

The Company sells the resettlement housing to households affected by demolition at government guidance prices that are often below market prices. As of 31 March 2023, the Company completed the investment in resettlement housing construction projects of RMB2.8 billion. The Company also had 14 projects under construction and 5 projects under planning, with a total investment of RMB23.0 billion and an outstanding investment of RMB9.4 billion. The large project reserve ensures the sustainability of the Company. According to the local government planning, other LIIFCs in Pei County will gradually withdraw from the property development business, and the Company will become the main entity for resettlement housing construction in Pei County, demonstrating monopoly and sustainability of the business.

Medium exposure to commercial activities

Apart from infrastructure construction and resettlement housing business, PXUC also engages in other commercial activities including property development, industrial park construction, leasing, and commodity sales. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction businesses. The Company's exposure to commercial activities is considered medium, which accounted for 20%-30% of its total assets, based on our assessment.

PXUC's property development business involves the development of commercial housing and office building that generates income through sales and leasing. The property development business may expose the Company to certain business risk and the local government seldom provides direct support for these activities. As of 31 March 2023, the Company had completed several property development projects, of which most of the commercial housing has been sold. At the same time, the Company would invest around RMB740 million in one property development project that was under construction. During the period of downturn in the recent real estate market, the Company may face certain uncertainties in the sales of these properties.

The Company also had some self-constructed industrial parks in Pei County EDZ. The constructed industrial parks along with shop front and car park of resettlement housing, and office buildings will be leased out and generates recurring income for the Company. As of 31 March 2023, the Company had a total leasable area of around 273.4 thousand square meters. As of 31 March 2023, the Company had two projects under construction,

with an outstanding investment of RMB502 million. The Company also had 8 projects under planning, with a total investment of RMB9.4 billion and an outstanding investment of RMB5.4 billion. As more industrial parks are completed in the future, the leasable area and rental income are expected to increase. However, considering its ongoing investments in industrial park construction and long investment return cycle, the Company may face a certain capital expenditure burden.

PXUC's commodity sale business contributed a considerable amount of income to the Company but has a narrow profit margin. Major trading products include aluminum products, photovoltaic materials, solar cells, and building materials while most of the revenue stream from this business sector mainly came from aluminum. The Company mainly adopts a demand-on-production model for aluminum products, and makes the confirmation on volume and prices with downstream customers before production. However, some downstream customers for building materials may receive a payment period of less than one year, which may take up its capital. The supplier concentration risk for aluminum products was high as the Top 5 suppliers accounted for around 80% of the total procurements in 2022.

Good track record of receiving government support

In recognition of the importance of PXUC's businesses to Pei County, the Company has received comprehensive support from the government, in terms capital injections, cash injection, project repayments, and operating subsidies. From 2020 to 2023H1, the Company received capital injection of RMB3.0 billion in cash from Pei County Government and the Management Committee of Pei County EDZ, substantially enhancing the capital strength of PXUC.

PXUC also has a good track record of receiving government payments. From 2020 to 2022, the Company continuously received operating subsidies from the local government with a total amount of around RMB342 million. In addition, it had received project repayments of RMB7.2 billion from historical infrastructure construction, resettlement housing and industrial parks under agency construction mode as of 31 March 2023. With the strengthening of investment attraction policy and the continuous inbound investment in Pei County, the Company is expected to receive payments from the local government for its settled agency construction projects. As of 30 June 2023, the receivables from the local government amounted to RMB7.8 billion, accounting for 12% of its total assets.

Overall, we expect PXUC to receive ongoing government support in the next 12-18 months given its important role in the development of Pei County.

Increasing debt burden and moderate asset liquidity

PXUC shows a rising debt burden owing to its expansion in the construction of public-policy projects over the past few years. From 2020 to 2023H1, the Company's total debt increased to RMB37.8 billion from RMB20.6 billion. Its capitalization ratio, as measured by total debt to total capital, also increased to 63.5%. At the same time, the Company had a relatively high short-term debt burden with the short-term debt accounting for 32.5% of the total debt. The cash to short-term debt ratio was around 0.5x as of end-2022, indicating that its cash balance was insufficient to cover its short-term debt. As of 31 March 2023, the Company has planned to invest more than RMB5.0 billion in key projects including infrastructure construction, resettlement housing, industrial park, and property development projects in 2023. We expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Exhibit 6. Key projects under construction and planning as of 31 March 2023

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB million)	(RMB million)	(RMB million)
Projects Under Construction				
Infrastructure Construction	6	192	188	4
Resettlement Housing	14	16,103	13,568	2,535
Property Development	1	950	210	740
Industrial Park	2	2,858	2,356	502
Project Under Planning				
Infrastructure Construction	4	668	-	668
Resettlement Housing	5	6,900	-	6900
Industrial Park	8	5,449	-	5,449
Total	40	33,120	16,322	16,798

Source: Company information, CCXAP research

PXUC's asset liquidity was moderate. As of 30 June 2023, the Company pledged some assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB5.9 billion, accounting for 44.6% of net assets. On top of that, on 30 June 2023, the Company's inventories, account receivables, and other receivables accounted for around 60% of the total assets. The Company's inventories mainly include the cost of construction works and land, while accounts receivables are mainly receivables from the local government, which are considered low liquidity.

Furthermore, there's a risk of recovery from loans to some private-owned entities. The Company's other receivables account contains loans provided to local private-owned enterprises. The Company has instituted legal proceedings against some of the private-owned enterprises, such as Jiangsu Fengyuan Aluminium Industry Co., Ltd. ("JFAI") and Xuzhou Shouren Northeast Hotel Co., Ltd. ("XSNH"), both of which have been listed as dishonest judgment debtors. The Company had a total amount of receivables of around RMB49 million from JFAI and XSNH as of 30 June 2023, and the likelihood of receiving repayments from was considered low. At the same time, PXUC had loan receivables of RMB232 million from a private-owned enterprise as of 30 June 2023, namely Xuzhou Xinyu Photovoltaic Technology Co., Ltd. ("XXPT"), which has defaulted from the repayment. The Company has rearranged a new contract with XXPT, which has provided properties as collaterals.

Diversified funding channels

PXUC has diversified financing channels including capital markets, bank borrowing and non-standard financing, which could partially relieve the pressure on debt repayment and capital expenditure. Bank borrowing accounts for the majority of total debts and the Company maintains good relationships with large domestic banks such as policy banks, large state-owned banks, and large joint-stock commercial banks. As of 30 June 2023, the Company has obtained total credit facilities of around RMB33.3 billion, with an unutilized amount of around RMB6.2 billion. The Company has good access to onshore capital markets. For example, the Company and its subsidiaries have issued several tranches of MTN and PPN from January to September 2023, raising RMB6.4 billion. PXUC also had certain exposure to nonstandard financing, accounting for 15%-20% of the total debts as of 30 June 2023, mainly provided by financial leasing and trust companies.

Medium level of contingent risk

The credit profile of PXUC is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company had outstanding external guarantees of RMB5.3 billion, accounting for 24.5% of its net assets. Most guarantees are provided to other state-owned enterprises within Pei County. However, an RMB435 million external guarantee balance was provided to three private-owned enterprises that undertook construction projects of PXUC. The Company only provides guarantees within the scope of the project fund. The Company currently has strict control over the increase of external guarantees, and the overall level of contingent risk is considered medium.

ESG Considerations

PXUC faces environmental risks because it has undertaken infrastructure construction 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.

PXUC bears social risks as it implements public policy initiatives by building public infrastructure in Pei 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.

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

Structural Considerations

PXUC'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 important role in urban and industrial development in Pei 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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