

## Credit Opinion

15 December 2023

### Ratings

Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

### Analyst Contacts

Peter Chong +852-2860 7124  
Assistant Director of Credit Rating  
[peter\\_chong@ccxap.com](mailto:peter_chong@ccxap.com)

Simon Chen +852-2860 7138  
Assistant Credit Analyst  
[simon\\_chen@ccxap.com](mailto:simon_chen@ccxap.com)

Elle Hu +852-2860 7120  
Executive Director of Credit Ratings  
[elle\\_hu@ccxap.com](mailto: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

## Pingyang County Urban Construction Investment Co., Ltd.

### Initial credit rating report

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

### Summary

The BBB<sub>g</sub> long-term credit rating of Pingyang County Urban Construction and Investment Co., Ltd (“PUCI” or the “Company”) reflects (1) Pingyang 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 Pingyang County Government’s capacity to provide support reflects its good industrial base, ongoing economic growth, and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position in the comprehensive development of Pingyang County; (2) high sustainability of public policy businesses; and (3) good access to funding.

However, the Company’s rating is constrained by its (1) moderate exposure to commercial activities with manageable commercial risks; (2) fast debt growth and moderate asset liquidity; and (3) high exposure to external guarantees, with manageable contingent liability risk.

The stable outlook on PUCI’s rating reflects our expectation that the Company will maintain its key position in Pingyang County. We also expect that the Company will continue to receive ongoing government support.

## Rating Drivers

- Important position in the comprehensive development of Pingyang County
- High sustainability of public policy businesses
- Moderate exposure to commercial activities with manageable commercial risks
- Fast debt growth and moderate asset liquidity
- Good access to funding
- High exposure to external guarantees, with manageable contingent liability risk

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) 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 materially decrease in its exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) 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 its importance, materially decrease in government support, or deteriorated debt management.

## Key Indicators

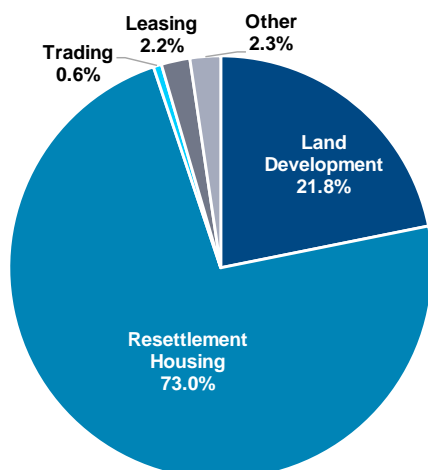
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	32.4	37.8	46.3	55.8
Total Equity (RMB billion)	10.7	12.1	16.1	16.0
Total Revenue (RMB billion)	0.8	0.8	1.3	0.3
Total Debt/Total Capital (%)	62.8	61.4	60.6	63.7

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

Source: CCXAP research

## Corporate Profile

Founded in 2013, PUCI is the key local infrastructure investment and financing company ("LIIFC") in Pingyang County, Wenzhou City. The Company mainly engages in land development, infrastructure construction, and resettlement housing in Pingyang County. It is also engaged in commercial businesses such as property leasing and trading. As of 30 June 2023, Pingyang State-owned Assets Development Co., Ltd directly held 100% of the Company's shares and Pingyang County State-owned Assets Supervision and Administration Office was its ultimate controller.

**Exhibit 1. Revenue structure in 2022**

Source: Company information, CCXAP research

**Exhibit 2. Shareholding chart as of 30 June 2023**

平阳县国有资产监督管理办公室 Pingyang County State-owned Assets Supervision and Administration Office	100%
平阳县国诚控股有限公司 Pingyang County Guocheng Holding Co., Ltd.	100%
平阳县国资发展有限公司 Pingyang State-owned Assets Development Co., Ltd.	100%
平阳县城市建设投资有限公司 Pingyang City Construction and Investment Co., Ltd	

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe Pingyang County Government has strong capacity to provide support given its good industrial base, ongoing economic growth, and good fiscal stability.

Zhejiang Province is one of the most economically developed provinces in China, and its comprehensive economic strength and private economy leads in China. In 2022, the gross regional product ("GRP") of Zhejiang Province was RMB7.8 trillion, ranking 4<sup>th</sup> among all provinces in China, with a year-on-year ("YoY") increase of 3.1%. In 2022, its general budgetary revenue reached RMB0.8 trillion, ranking 3<sup>rd</sup> among all provinces in China.

Located in the southeast of Zhejiang Province, Wenzhou City is one of China's 45 highway main hub cities and one of the country's 25 main hub ports, with convenient transportation and abundant tourism resources. In

recent years, Wenzhou City has promoted the development of five pillar industries, including electrical, footwear, clothing, auto parts and pumps. In 2022, Wenzhou City's GRP increased by 3.7% YoY to RMB803.0 billion, ranking 3<sup>rd</sup> among all prefecture-level cities in Zhejiang Province. Besides, Wenzhou City has been known for its well-developed private-owned economy. At the end of 2022, there were 58 listed companies in Wenzhou City, the majority of which were private-owned enterprises, providing a good foundation for its economy and taxation. Affected by the pandemic, Wenzhou City Government's general budgetary revenue decreased from RMB65.8 billion in 2021 to RMB57.4 billion in 2022, with moderate fiscal balance ratio of 50.4%. In 2022, Wenzhou City's outstanding governmental debt amounted to RMB263.5 billion, equivalent to 32.8% of its GRP. In the first half of 2023, Wenzhou City achieved GRP of RMB402.6 billion, with YoY growth rate of 7.5%, and general budgetary revenue of RMB39.4 billion.

### Exhibit 3. Key economic and fiscal indicators of Wenzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	687.1	758.5	803.0
GRP Growth (%)	3.4	7.7	3.7
General Budgetary Revenue (RMB billion)	60.2	65.8	57.4
General Budgetary Expenditure (RMB billion)	102.7	106.7	113.8
Local Government Debt (RMB billion)	160.0	212.7	263.5

Source: Statistics Bureau of Wenzhou City, CCXAP research

Located in Wenzhou City, Pingyang County has an area of 1,051 square kilometers. With good industrial base and developed private-owned economy, it has formed three pillar industries including intelligent equipment, new materials and fashion industry. From 2020 to 2022, the GRP of Pingyang County increased from RMB53.5 billion to RMB64.6 billion. Even affected by the pandemic, its GRP growth rate remains high, reaching 6.4% in 2022. With the ongoing economic growth, Pingyang County's general budgetary revenue also increased from RMB3.6 billion in 2020 to RMB3.7 billion in 2022. In addition, Pingyang County's general budgetary revenue has high quality, with tax income accounting for 77.2% of total general budgetary revenue in 2022. Besides, Pingyang County has modest fiscal self-sufficiency, with fiscal balance ratio of 40.5% in 2022. At end-2022, Pingyang County reported outstanding governmental debt of RMB15.4 billion, representing 23.8% of GRP. In the first half of 2023, Pingyang County achieved GRP of RMB31.6 billion, with YoY growth rate of 8.8%, and general budgetary revenue of RMB2.6 billion.

### Exhibit 4. Key economic and fiscal indicators of Pingyang County

	2020FY	2021FY	2022FY
GRP (RMB billion)	53.5	60.1	64.6
GRP Growth (%)	2.1	9.8	6.4
General Budgetary Revenue (RMB billion)	3.6	4.2	3.7
General Budgetary Expenditure (RMB billion)	9.2	9.4	9.1
Local Government Debt (RMB billion)	8.7	11.6	15.4

Source: Statistics Bureau of Pingyang County, CCXAP research

## Government's Willingness to Provide Support

### Important position in the comprehensive development of Pingyang County

There are eight LIIFCs in Pingyang County, each with clear positioning in the development of the region. PUCI is responsible for land development, infrastructure construction and resettlement housing in Pingyang County,

while other LIIFCs are responsible for road construction, water and gas sales, and other public businesses. The Company has completed a large number of land development, infrastructure construction and resettlement housing projects in Pingyang County, mainly the Chengdong New Area and Aojiang Area, making great contributions to the economic and social development of the region. Considering the PUCI's key position in the comprehensive development of Pingyang County, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

### **High sustainability of public policy businesses**

PUCI has participated in land development, infrastructure construction, and resettlement housing through the Company itself and its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure to the Company.

The Company is an important land developer in Pingyang County. The Company will first consolidate land parcels with self-raised funds. After that, the land parcel will be transferred to the local government, which would sell the land parcel in the public market and then return about 70% of the land transfer fees to the Company. As of 30 June 2023, the Company has 5 major land consolidation projects under construction, with total investment of RMB8.9 billion and uninvested amount of RMB2.9 billion. However, the land development business is susceptible to local land market and may fluctuate greatly.

Entrusted by the local government, PUCI undertakes infrastructure construction projects by self-raised funds under agency construction model. The Company will receive a return based on the actual costs plus 10% markup as management fees upon project settlement. As of 30 June 2023, the Company had invested RMB6.2 billion into infrastructure construction projects under construction, with an uninvested amount of RMB6.6 billion; the Company had 2 projects under planning, with total investment amount of RMB2.1 billion, indicating high capital expenditure pressure. In addition, the business is susceptible to construction progress.

Pursuant to the local resettlement plan, PUCI has also undertaken a number of resettlement housing projects in Pingyang County, which will be sold to the relocation households after completion within the price range set by the local government. As of 30 June 2023, the Company had 4 projects under construction and 2 projects under planning, with total estimated investment of RMB2.4 billion and uninvested amount of RMB1.7 billion, indicating certain capital needs. Given Pingyang County Government's policy to cease the construction of new resettlement housing, the sustainability of resettlement housing business is subject to uncertainty.

### **Moderate exposure to commercial activities with manageable commercial risks**

PUCI's exposure to commercial activities is moderate as the commercial business-related assets accounted for less than 20% of total asset as of 30 June 2023. The commercial businesses include property leasing and trading. We believe that the commercial risks are manageable as the property leasing can provide stable rental income to the Company, and the income scale of the trading business is still limited.

PUCI owns high-quality standard industrial plants in the region, which are leased to companies operating in Pingyang County, providing stable rental income. As of 30 June 2023, the total occupancy rate achieved 100% due to good industrial fundamentals of Pingyang County. Affected by the rent reduction policy during the pandemic, the revenue from property leasing decreased from RMB34.9 million in 2021 to RMB28.2 million in 2022, with relatively high gross profit margin of 82.6%.

PUCI also engages in trading business, with diversified trading products such as stone, fuel oil and minerals. The trading business provides supplement income to the Company. In 2022, the Company's trading business revenue increased to RMB7.7 million from RMB3.4 million in 2021.

### **Fast debt growth and moderate asset liquidity**

With the increasing financing demand for the infrastructure construction projects, PUCI has a fast debt growth over the past three years. The Company's total debt increased from RMB17.4 billion at end-2020 to RMB30.1 billion at mid-2023, with total capitalization ratio of 65.2%. In addition, the Company has reasonable debt structure. As of 30 June 2023, its short-term debt accounted for about 20.5% of total debt. With pipeline of land development, infrastructure construction and resettlement housing projects under construction, the Company will continue to rely on external financing to meet its future capital expenditure needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months.

PUCI's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories and receivables, all with low liquidity. The inventories are development costs from construction projects, while the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 68% of total asset at mid-2023.

### **Good access to funding**

PUCI's good access to funding from bank borrowings and bond market. The Company has good relationship with multiple commercial banks and policy banks in China, such as Agricultural Development Bank of China and Industrial and Commercial Bank of China, and has obtained sufficient credit facilities. As of 30 June 2023, the Company's total credit facilities were RMB31.7 billion, of which the unutilized portion was RMB10.4 billion. Besides, PUCI has issued PPNs and private placement bonds in the onshore bond market, raising RMB5.3 billion in total, with coupon rate ranging between 3.8% and 5.1%. The Company plans to issue offshore bonds to further diversify its financing channels. In addition, PUCI has low exposure to non-standard financing, which accounted for less than 6% of its total debts. Besides, the Company has relatively low financing cost, with total averaged financing cost of around 4.7%.

### **Ongoing government support**

PUCI has received ongoing support from the local government for its public policy projects. As of mid-2023, PUCI had collected normal project payments of RMB3.6 billion from the local government. Considering its considerable public policy projects in the pipeline, we expect that the Company will continue to receive support from the local government over the next 12 to 18 months.

### **High exposure to external guarantees, with manageable contingent liability risk**

PUCI has high exposure to external guarantees. As of 30 June 2023, PUCI's external guarantees amounted to RMB7.8 billion, accounting for 48.6% of its net assets. Most of external guarantees are provided to the state-owned enterprises located in Pingyang County, which have lower credit risks. We believe the Company's contingent liability risk is manageable.

## **ESG Considerations**

PUCI faces environmental risks because it has undertaken land development, infrastructure construction and resettlement housing projects in Pingyang County. 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.

PUCI bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Pingyang 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.

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

### **Structural Consideration**

PUCI'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 key position in comprehensive development of Pingyang 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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**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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656