

Credit Opinion

19 December 2023

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

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Chuxiong State-owned Capital Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms long-term credit rating of BBB_g- to Chuxiong State-owned Capital Investment Group Co., Ltd. with stable outlook.

Summary

The BBB_g- long-term credit rating of Chuxiong State-owned Capital Investment Group Co., Ltd. (“CSCI” or the “Company”) reflects Chuxiong Prefecture Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Chuxiong Prefecture Government’s capacity to provide support reflects that Chuxiong Yi Autonomous Prefecture (“Chuxiong Prefecture”) ranks 5th among 16 municipal cities and autonomous prefectures in Yunnan Province by gross regional product (“GRP”) in 2022, with a good GRP growth and economic fundamentals.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic position in the infrastructure and industrial development in Chuxiong Prefecture; (2) solid track record of receiving government payments; and (3) access to funding mainly from banks.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate asset liquidity; and (3) medium credit risks from lending business and contingent risks from external guarantees.

The stable outlook on CSCI’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its strategic role as the key infrastructure construction entity in Chuxiong Prefecture.

Rating Drivers

- Important strategic position in the infrastructure and industrial development in Chuxiong Prefecture
- Solid track record of receiving government payments
- Medium exposure to commercial activities
- Slowing debt growth and moderate asset liquidity
- Access to funding mainly from banks
- Credit risks from lending business and contingent risks from external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance the local government's willingness to provide support, such as decreased exposure to commercial activities or improved assets liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics weaken the local government's willingness to provide support, such as reduced strategic significance or increased exposure to commercial activities.

Key Indicators

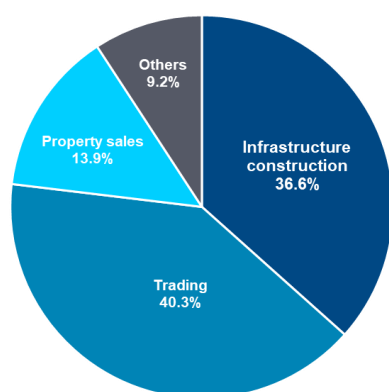
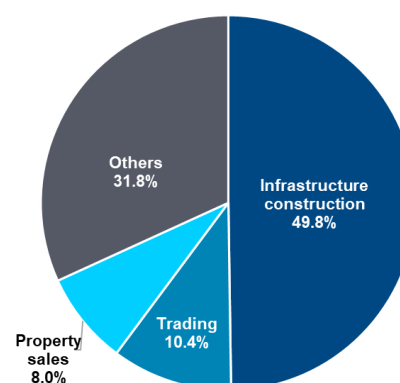
	2020FY (restated)	2021FY (restated)	2022FY	2023H1
Total Asset (RMB billion)	19.5	37.1	45.2	46.9
Total Equity (RMB billion)	10.9	18.5	23.1	23.2
Total Revenue (RMB billion)	0.7	1.0	1.5	0.8
Total Debt/Total Capital (%)	31.3	34.0	31.4	34.0

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

Source: Company information, CCXAP research

Corporate Profile

Formerly known as Chuxiong Industrial Investment Development Co., Ltd., CSCI was founded in 2016 and is one of the major local infrastructure investment and financing companies ("LIIFCs") in Chuxiong Prefecture. It is primarily responsible for infrastructure construction and public utility services, such as infrastructure projects and rural road construction, as well as water supply and sewage treatment services. Apart from its main business, the Company is also engaged in commercial activities, such as industrial park development, self-operating projects, property leasing, real estate development, engineering construction and material trading. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the Chuxiong Prefecture Government.

Exhibit 1. Revenue Structure in 2023H1**Exhibit 2. Gross Profit Structure in 2023H1**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Chuxiong Prefecture Government has a relatively strong capacity to provide support to the Company, given its good economic growth. However, this support capacity is also constrained by its heavy debt burden.

Located in the central part of Yunnan Province, Chuxiong Prefecture is an important member of the urban economic circle in central Yunnan. In 2022, Yunnan's GRP increased by 4.3% year on year ("YoY") to RMB2.9 trillion, ranking at the median level among all provinces in China, while the general public budget revenue in Yunnan Province was RMB194.9 billion, a decrease of 14.4% YoY. Affected by the fluctuations in the land market, the government fund income of Yunnan has dropped significantly, with a drop of 42.9% in 2022 compared with 2021. However, the central government had provided strong financial support to Yunnan Province. In 2022 the central subsidy revenue (including tax rebates and transfer payments) was RMB444.9 billion in 2022. In terms of debt, Yunnan Province had a heavy debt burden, with an outstanding debt of RMB1209.8 billion in 2022. In the first half of 2023, Yunnan's GRP was RMB1.4 trillion, a YoY increase of 5.1%, slightly lower than the national GRP growth rate.

Exhibit 3. Key Economic and Fiscal Indicators of Yunnan Province

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,452.1	2,714.7	2,895.4
GRP Growth (%)	4.0	7.3	4.3
General Budgetary Revenue (RMB billion)	211.7	227.8	194.9
General Budgetary Expenditure (RMB billion)	697.4	663.4	670.0
Local Government Debt (RMB billion)	959.2	1,095.2	1,209.8

Source: Statistic Bureau of Yunnan Province, CCXAP research

Chuxiong Prefecture is an autonomous prefecture with a total area of 28,438 square kilometers. Geographical location, natural resources and industrial development are the three major competitive advantages of Chuxiong Prefecture. With the support of pillar industries, such as tobacco and metallurgy, the economy of Chuxiong Prefecture has continued to grow over the past three years. In 2022, it achieved a GRP of RMB176.3 billion, a YoY increase of 6.7%, ranking 5th and 2nd in GRP and GRP growth rates in 16 autonomous prefectures and

cities in Yunnan Province. In the first half of 2023, Chuxiong recorded a GRP of RMB83.4 billion, an increase of 5.0% YoY.

Chuxiong Prefecture Government's general budgetary revenue slightly decreased from RMB9.3 billion in 2021 to RMB8.8 billion in 2022. Its fiscal balance ratio remained weak at below 40% in the past three years, with high reliance on the transfer payment from the upper-tier government. In 2022, its tax revenue was RMB4.3 billion, accounting for 48.8% of its general public budget revenue, indicating a moderate financial quality. Chuxiong Prefecture Government has a heavy debt burden. In 2022, it recorded an outstanding debt of RMB46.7 billion, accounting for 129.9% of its total fiscal revenue and 26.5% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Chuxiong Prefecture

	2020FY	2021FY	2022FY
GRP (RMB billion)	137.2	160.8	176.3
GRP Growth (%)	6.0	11.2	6.7
General Budgetary Revenue (RMB billion)	9.0	9.3	8.8
General Budgetary Expenditure (RMB billion)	29.4	29.7	28.4
Local Government Debt (RMB billion)	32.8	40.1	46.7

Source: Statistic Bureau of Chuxiong Prefecture, CCXAP research

Government's Willingness to Provide Support

Important strategic position in the infrastructure and industrial development in Chuxiong Prefecture

There are two major LIIFCs in Chuxiong Prefecture, including CSCI and Chuxiong State-owned Capital Operation Group Co., Ltd. ("CSCO"). The Company has a clear positioning to promote industrial development and complete infrastructure construction in Chuxiong Prefecture, while CSCO is mainly responsible for the operation of state-owned asset operations. As the most important infrastructure construction company in Chuxiong Prefecture, CSCI plays an obvious strategic role in regional economic and social development by undertaking infrastructure construction projects and providing public utility services. We believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

CSCI is entrusted by the local government to undertake major infrastructure construction projects in Chuxiong Prefecture. In the past few years, it has successfully delivered a series of large-scale infrastructure projects and public welfare facilities, including roads and rural upgrading projects. The Company conducts infrastructure construction projects through the agency construction model and the public-private partnership ("PPP") model. The agency construction model remains unchanged compared to last year. As of 30 June 2023, the Company had 5 agency construction projects under construction with an uninvested amount of RMB274.5 million. Since 2017, CSCI's infrastructure construction business has gradually transitioned from the agency construction model to the PPP model. Affected by changes in PPP project policies, the Company has had no new PPP projects since 2022. As of 30 June 2023, the Company had 11 PPP model projects under construction or planning, with a total investment amount of RMB7.9 billion and an outstanding amount of RMB5.2 billion. Given the large amount of uninvested amount in agency construction and PPP projects, we believe that the sustainability of the Company's infrastructure business will be high in the next 12-18 months.

In addition to infrastructure construction projects, CSCI also operates sewage treatment plants, water supply plants, and waste incineration in Chuxiong Prefecture. However, these businesses did not contribute much to the Company's revenue and profitability.

Medium exposure to commercial activities

In addition to public activities, CSCI is also involved in various commercial activities such as self-operating projects, property leasing, real estate development, engineering construction, material trading and equity investment. We consider CSCI's commercial business exposure to be moderate, as its market-driven businesses account for around 30% of its total assets.

The Company is engaged in the construction of self-operating projects, and achieves a balance between revenue and expense mainly by obtaining government subsidies and operating income (such as lease income and ticket revenue) from these projects. As of 30 June 2023, the Company had 15 self-operating projects under construction or planning, with a total investment of RMB8.3 billion and an outstanding amount of RMB5.8 billion. These projects include the construction of quarries, water facilities, commercial centers and tourist facilities. The Company's self-operated projects under construction and planned still require large-scale investment, which exerts large capital expenditure pressure on the Company.

In addition, as of 30 June 2023, CSCI had completed two real estate projects, with a total invested amount of RMB430.0 million and a total received payment of RMB392.0 million; furthermore, there were 2 real estate projects under construction with a total investment of RMB700.0 million and a total received payment of RMB304.0 million. As property sales are highly subject to fluctuations in the local real estate market, we will keep an eye on project sales and cash collection.

To meet the large construction demand of Chuxiong Prefecture, CSCI also conducts material trading business. The material trading business is the largest contributor to the Company's revenue. The Company mainly sells construction materials and agricultural products, such as rebar, cement and fruits, to local construction and trading companies. Most of the counterparties are construction and trading companies in Chuxiong Prefecture and Yunnan Province. In the first half of 2023, the top 5 customers accounted for 38.9% of the sales and the top 5 suppliers accounted for 74.2% of the supply over the same period, indicating certain concentration risks.

The Company undertakes engineering construction projects through open tendering. Most of the entrusting parties are government agencies or other state-owned enterprises, which repay the Company based on the construction progress. The engineering construction business makes a large contribution to the Company's revenue. As of 30 June 2023, the Company had 14 engineering construction projects under construction or planning, with a total investment of RMB769.1 million and an outstanding amount of RMB482.1 million. Overall, CSCI has sufficient project reserves, but there are advance funds in the early stage of engineering construction projects, and the payment time is relatively long.

The Company also provides poverty alleviation business and entrusted loan services to support the development of local counties and cities as well as local small-and-medium enterprises ("SMEs"), including privately-owned enterprises and state-owned enterprises. As of 30 June 2023, CSCI has an outstanding entrusted loan amount of RMB26.0 million, with no bad debt record. Since most of the business counterparties are privately owned SMEs, this brings certain credit contagion risks to the Company. However, due to the change in bank policies, the Company has no longer conducted the entrusted loan business after 2020.

Moreover, the Company is entrusted by the government to make equity investments in highways. Its investment decisions and funding sources are supported by the government.

CSCI is mandated by the government to undertake the industrial development of Chuxiong Prefecture, and has a highly strategic policy role in supporting and upgrading local industries. The Company plans to construct local

industrial parks in Chuxiong Prefecture to promote the development of digital economy and new energy industries. Considering the Company's plan to develop market-driven businesses, we believe that the Company will expand the scale of its commercial business exposure in the future.

Solid track record of receiving government payments

CSCI has a proven track record of receiving ongoing government support from Chuxiong Prefecture Government and Chuxiong Prefecture State-owned Asset and Supervision and Administration Commission ("Chuxiong SASAC"), including government subsidies, capital injections, asset injections and equity transfers. In 2023H1, the Chuxiong Prefecture Finance Bureau allocated RMB5.0 million in special funds for the monocrystalline silicon industry for the Company's registered capital. The Company's paid-in capital increased to RMB1.0 billion by the end of June 2023, mainly due to the acceptance of equity transfer of 6 local state-owned enterprises in 2022. Considering CSCI's important strategic role, we expect the Company will continue to receive support from Chuxiong Prefecture Government and Chuxiong SASAC in the future.

Exhibit 5. Government support from 2020 to 2023H1

(RMB million)	2020FY	2021FY	2022FY	2023H1
Government Subsidies	2.5	3.6	27.8	8.5
Asset Injections	-	-	-	3,518.6
Equity Transfers	3,360.0	1,389.0	9,418.1	-
Repurchase Payments	450.7	356.1	983.8	47.7
Total	3,813.2	1,748.7	10,429.7	3,574.8

Source: Company information, CCXAP research

Slowing debt growth

CSCI had high debt growth from 2020 to 2021 due to its debt-driven business expansion. Its total debt increased from RMB5.0 billion at end-2020 to RMB9.5 billion in 2021. However, the Company's debt growth has slowed down in the past two years. In mid-2023, its total debt was RMB11.9 billion, with a total capitalization ratio of 34.0%. In terms of debt structure, the Company had a reasonable short-term debt burden, and the ratio of short-term debt to total debt was 18.1% as of 30 June 2023. However, given the Company's large capital expenditure pressure on its construction projects and industrial investment, we expect the Company's debt will gradually increase over the next 12-18 months.

Moderate asset liquidity

In addition, CSCI has moderate asset liquidity. The Company's total assets are mainly inventories and other receivables, which accounted for 55.0% of total assets as of 30 June 2023. Inventories were mainly investment costs of infrastructure construction and property development projects, while other receivables were mainly unreceived payments from the government and other state-owned enterprises for infrastructure construction projects, all of which are considered as low liquidity.

Access to funding mainly from banks

The Company's large investment needs could be partly supported by its access to funding. As of 30 June 2023, around 80.9% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB5.0 billion. Around 8.3% of debt financing was provided by the onshore debt capital market. For example, CSCI issued an onshore private bond in 2021 with a coupon rate of 7.3% and a total amount of RMB1.0 billion.

As of 30 June 2023, the Company's non-standard financing accounted for 8.7% of its total debt.

Credit risks from lending business and contingent risks from external guarantees

As of 30 June 2023, CSCI's external guarantee amount was RMB4.1 billion, accounting for 17.6% of its net assets. Most of the external guarantees were provided to local state-owned enterprises in Chuxiong Prefecture. These guarantee exposures may increase the Company's contingent liability risks. For the poverty alleviation business, the Company borrowed from national policy banks and lent to the local counties under Chuxiong Prefecture. Relevant government departments of Chuxiong Prefecture undertake the repurchase obligation of poverty alleviation projects. Furthermore, the counterparties of the entrusted loan business include local SMEs, if the counterparties fail to repay on time, the Company might face credit contagion risk. As of 30 June 2023, the balance of the Company's entrusted loans was RMB26.0 million, accounting for 0.1% of its net assets.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CSCI assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of the projects and close supervision during construction.

CSCI is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Chuxiong Prefecture. Demographic changes, public awareness and social priorities shape the government's development strategy and will affect the government's propensity to support the Company.

Governance considerations are also important for CSCI as it is subject to oversight and reporting requirements of the local government, 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 \(July 2022\)](#).

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