

Credit Opinion

15 March 2024

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

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

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Xiapu County State-owned Assets Investment and Operation Co., Ltd., 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, with fast economic and fiscal growth, 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) 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) limited access to funding.

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 in Xiapu 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 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

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	8.2	14.5	18.8	19.8
Total Equity (RMB billion)	6.4	10.3	10.5	10.7
Total Revenue (RMB billion)	0.5	0.7	0.9	0.7
Total Debt/Total Capital (%)	13.4	16.4	22.6	22.6

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 2023, 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 2022

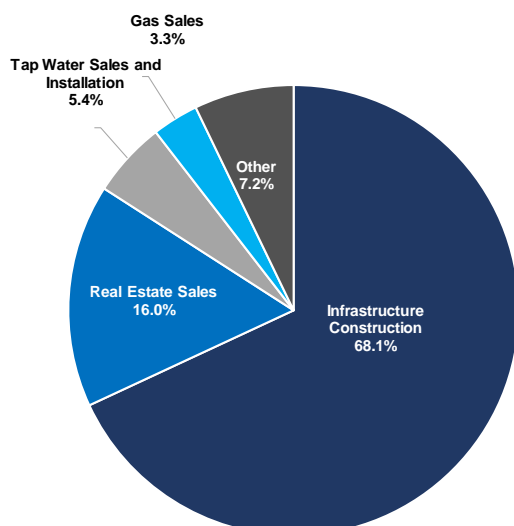
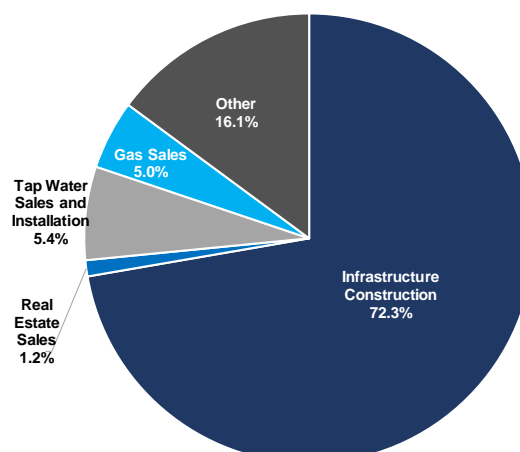


Exhibit 2. Gross Profit Structure in 2022



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, with fast economic and fiscal growth, but constrained by its relatively small economic scale.

Fujian Province is located in the southeastern coast of China and is recognized as one of the provinces with the fastest economic development in China. In 2023, Fujian recorded a gross regional product ("GRP") of RMB5.4 trillion, with a GRP growth rate of 4.5% year-on-year ("YoY"), ranking 8th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB359.2 billion in 2023.

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, copper materials. It has demonstrated fast economic growth over the past three years, albeit with fluctuation. The GRP of Ningde City increased from RMB261.9 billion in 2020 to RMB355.5 billion in 2022, with GRP growth rate of 10.7% YoY, ranking 5th among 10 cities in Fujian Province. It has moderate fiscal stability, with tax revenue accounting for 70.3% of its general public budget revenue on average over the past three years. However, its fiscal balance is weak with an average general budgetary revenue/general budgetary expenditure ratio of 43.8% over the past three years. Its debt burden is moderate. In 2022, the local government's outstanding debt grew to RMB81.3 billion, accounting for 22.9% of GRP. In the first nine months of 2023, the GRP of Ningde City was RMB266.8 billion, with a growth rate of 10% compared to the same period in 2022; while its general budgetary revenue amounted to RMB27.7 billion.

Exhibit 3. Key Economic and Fiscal Indicators of Ningde City

	2020FY	2021FY	2022FY
GRP (RMB billion)	261.9	315.1	355.5
GRP Growth (%)	6.0	13.3	10.7
General Budgetary Revenue (RMB billion)	13.8	15.8	16.7
General Budgetary Expenditure (RMB billion)	35.7	34.4	35.7
Local Government Debt (RMB billion)	53.1	67.3	81.3

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 has demonstrated fast economic growth over the past three years. Its GRP increased from RMB26.4 billion in 2020 to RMB35.4 billion in 2022, ranking 4th among 9 districts/counties in Ningde City, with a GRP growth rate of 13.6%. Its general budgetary revenue also increased from RMB1.1 billion in 2020 to RMB2.3 billion in 2022. However, due to the tax refund factor, it has moderate fiscal stability, with tax revenue accounting for 52.6% of its general public budget revenue on average over the past three years. However, its fiscal balance is relatively weak, with a general budgetary revenue/general budgetary expenditure ratio of 40.3% on average over the past three years. In addition, the Xiapu County Government has a moderate debt profile, with an outstanding government debt of RMB7.4 billion at end-2022, accounting for 20.9% of its GRP. In the first nine months of 2023, the GRP of Xiapu County increased by 5.7% YoY to RMB27.7 billion.

Exhibit 4. Key Economic and Fiscal Indicators of Xiapu County

	2020FY	2021FY	2022FY
GRP (RMB billion)	26.4	31.0	35.4
GRP Growth (%)	1.5	12.8	13.6
General Budgetary Revenue (RMB billion)	1.1	1.3	2.3
General Budgetary Expenditure (RMB billion)	4.1	4.2	3.7
Local Government Debt (RMB billion)	4.1	5.4	7.4

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"), each responsible for the development of different area in the Xiapu County without overlapping. XCOI is mainly responsible for marine resources development and construction in Xiapu County. The Company is the most important LIIFC with the largest assets size in Xiapu County, and 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 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. The Company conducts infrastructure construction projects by signing agency construction agreements with the Xiapu County Government, which will settle with the Company based

on the project investment amount plus 20% markup upon project completion. As of 30 September 2023, the Company had 10 infrastructure construction projects under construction or planning, with total estimated investment of RMB 10.8 billion and uninvested amount of around RMB10.1 billion. The large number of projects can ensure the business sustainability, but exerting certain capital expenditure pressure to the Company.

The Company has involved in water supply business since 2020. It mainly provides water supply and equipment installation services to the local residents as well as enterprises in Xiapu County. As the sole water supplier in Xiapu County, the Company provides tap water to over sixty thousand residents in Xiapu County. Benefited by the increasing water supply capacity, pipeline network length, and number of users, the revenue of the business increased in 2022. However, the gross profit margin from equipment installation business fluctuates by different projects, resulting in the decline in the gross profit margin of overall water service business. Besides, the Company has a Xiapu County Urban and Rural Water Supply Integration Project under construction with total planned investment of RMB1.2 billion and uninvested amount of around RMB942 million; it also has 6 reservoirs projects under planning with total expected investment amount of RMB1.2 billion. The Company conducts its natural gas business segment through subsidiary of Xiapu County Urban Construction Investment Co., Ltd.. It mainly provides bottled gas to residents in the old urban area of Xiapu County who unable to install piped gas. It offers the gas supply services to about 38 thousand households in Xiapu County.

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 of commercial activities such as affordable housing and highway construction are converted to self-operated models, but due to its policy nature, the business risks are controllable.

The Company engaged in the property projects through its subsidiary Xiapu County Chengtou Real Estate Development Co., Ltd. ("XCRD") in the region. The Company received income through the sales of remaining housing projects for affordable housing projects. As of 30 September 2023, it had completed a shantytown reconstruction project in Dongguan section of 617 Road of Xiapu County, most of which has been sold out and received the payments of totally RMB167 million. In addition, it also conducts the commercial housing construction projects under cooperative development model. The Company cooperates with a subsidiary of Xiamen C&D Group Co., Ltd. to develop commercial housing project such as Wangchao Garden project. The sales of the cooperated property projects will provide supplementary income to the Company. It is necessary to pay attention to the negative aspects of the recent downturn in the real estate market.

XSAI engaged in self-operated projects through its subsidiary Ningde Sanduao Expressway Co., Ltd, which is 64.4% owned by the Company, and the remaining 35.6% owned by the state-owned Company in Ningde City. As of 30 September 2023, there was a major highway project under construction, with a total investment amount of RMB6.5 billion and uninvested amount of around RMB1.8 billion. The funding of the project comes from the special funds, fiscal funds, as well as special bonds. The Company will operate the project under government loan repayment model upon projects completion and will achieve debt repayment and revenue generation through collecting road tolls.

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 30 September 2023, the Company had 39 leasable properties with occupancy rate over 90%. In 2022, the Company's property leasing business achieved income of RMB18.6 million, with a high gross profit margin of 49.1%.

The Company's material trading business is primarily involved in the production and sales of hardware parts as well as hardware processing. However, in 2022, the revenue from this business suffered a significant decline due to external adverse factors impacting production and logistics. It plans to generate additional income through renovation of own factory buildings and development of the industrial heritage tourism.

Good track record of receiving government support

As the most important infrastructure construction entity in Xiapu County, XSAI has a proven track record of receiving government support in the form of cash injection, equity transfers, financial subsidies and project payments. Since 2020, the local government has transferred large amount of equity interests of state-owned enterprises to the Company, significantly increasing its capital reserves. From 2020 to 2023Q3, the Company has received cash injection of RMB2 billion from the local government. During the same period, the local government has provided government subsidies of RMB398.6 million to the Company to support its operations and has provided repurchase payments of RMB2.6 billion for the completed agency projects. In addition, the Company has received special funds of about RMB3.2 billion for project construction as of end-2022. 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.

Reasonable debt leverage

XSAI's debt burden has increasingly grown over the past three years, due to the ongoing financing for the construction projects. The Company's total debt had increased from RMB984.4 million at end-2020 to RMB3.1 billion at end-2023Q3, with a reasonable total capitalization ratio of around 22.6%. Moreover, the Company has a reasonable debt structure. As of 30 September 2023, the short-term debt accounted for about 14.3% of total debt, and its cash to short-term debt ratio was 7.6x, 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 maintained at a manageable level in the next 12 to 18 months.

In addition, the Company is exposed to a low contingent liabilities risk. As of 30 September 2023, the Company recorded an external guarantee to a subsidiary of XCOI at the amount of RMB150 million, accounting for 1.4% of its total equity.

Moderate asset liquidity

XSAI has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company's total asset mainly consisted of inventories, investment properties and construction in progress, accounting for 66.3% of its total asset. Inventories are mainly investment costs for infrastructure construction projects. Nevertheless, it has investment properties with a value of RMB3.8 billion for leasing, providing stable supplementary income to the Company. As of 30 September 2023, the Company had pledged assets of RMB2.3 billion for loans, accounting for 11.8% of total assets.

Limited access to funding

The Company mainly relies on bank loans for funding, with average interest rate of around 4.8%. It maintains good relationship with domestic commercial and policy banks, such as Agricultural Development Bank of China and China Development Bank. As of 30 September 2023, it had obtained total credit facilities of RMB5.2 billion, with unutilized amount of RMB533 million, mostly from the China Development Bank, indicating limited standby liquidity. The Company has not issued bonds in the public market and plans to tap the bond markets to broaden

its funding channels. In addition, its non-standard financing, such as financial leasing, accounted for less than 10% 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 \(July 2022\)](#).

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