

## Credit Opinion

28 March 2024

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

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## Chongqing Nan'an Urban Construction Development (Group) Co. Ltd.

### Surveillance credit rating report

**CCXAP affirms Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd. ("CQNA" or the "Company") reflects Chongqing Nan'an District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the Nan'an District Government's capacity to provide support reflects Nan'an District's status as one of nine core districts in Chongqing City, with relatively good fiscal stability and moderate fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position of public policy projects in Nan'an District; (2) solid track record of receiving local government support; and (3) diversified access to funding.

However, the rating is constrained by the Company's (1) moderate asset liquidity; and (2) high debt leverage.

The stable outlook on CQNA's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its key role as the largest entity to undertake municipal infrastructure projects and the only entity to undertake shantytown renovation projects in Nan'an District.

## Rating Drivers

- Dominant position of public policy projects in Nan'an District
- Low exposure to commercial activities
- Solid track record of receiving local government support
- High debt leverage
- Moderate asset liquidity
- Diversified access to funding

## 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 local government's willingness to provide support, such as improvement on asset liquidity and debt management.

### 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 decrease the local government's willingness to provide support, such as reduced regional significance.

## Key Indicators

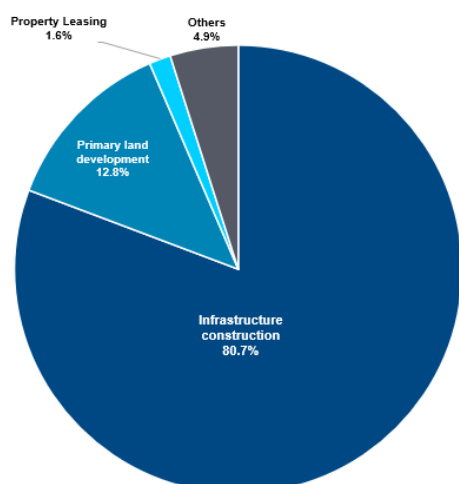
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	67.3	70.3	70.7	69.5
Total Equity (RMB billion)	22.8	23.0	22.2	21.8
Total Revenue (RMB billion)	3.7	4.2	4.5	1.5
Total Debt/Total Capital (%)	59.3	59.0	59.6	60.1

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

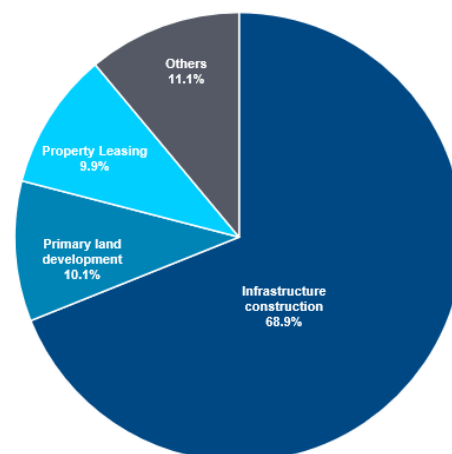
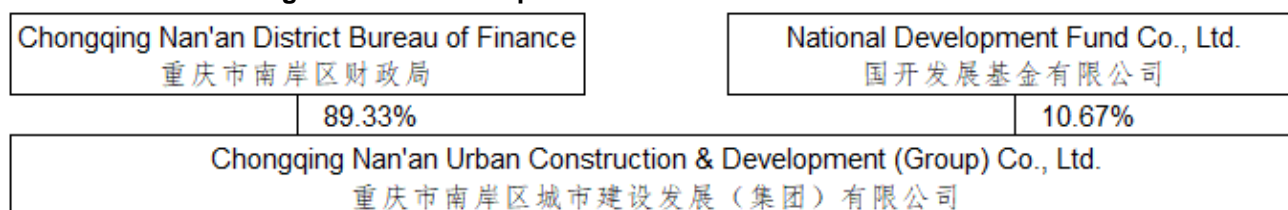
Source: Company data, CCXAP research

## Corporate Profile

Founded in 2003, CQNA is the largest infrastructure investment and financing platform in terms of total assets in Chongqing Nan'an District, primarily undertaking infrastructure construction, shantytown renovation, primary land development. In addition, the Company is also engaged in a number of commercial businesses, such as sports services, tourism highway operation, property leasing business. It is directly owned by Chongqing Nan'an District Bureau of Finance, and ultimately supervised by Chongqing Nan'an District Government. As of 30 September 2023, Chongqing Nan'an District Bureau of Finance held 89.33% and National Development Fund Co., Ltd. held the remaining 10.67% of the Company's shares, respectively.

**Exhibit 1. Revenue a Structure in 2022**

Source: Company information, CCXAP research

**Exhibit 2. Gross Profit Structure in 2022****Exhibit 3. Shareholding chart as of 30 September 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Nan'an District Government has a strong capacity to provide support to the Company, given its status as one of nine core districts in Chongqing City, with relatively good fiscal stability and moderate fiscal balance.

Nan'an District is a municipal district of Chongqing City, while Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing are the three major industries in Chongqing. Thanks to the vigorous development of the industrial sector, Chongqing's economy has demonstrated a growth trend. In 2023, Chongqing recorded a GRP of RMB3.0 trillion, ranking 5<sup>th</sup> among municipalities and prefecture-level cities in China, with a GRP growth rate of 6.1% year-on-year ("YoY"). The general budgetary revenue of Chongqing increased from RMB210.3 billion in 2022 to RMB244.1 billion in 2023. The direct government debt balance of Chongqing increased to RMB1,225.8 billion in 2023, accounting for 40.7% of its GRP for that year. We expect that Chongqing City will continue to serve as an important strategic city for the development of Western China, as well as a connecting point between the "Belt and Road" and the Yangtze River Economic Belt, and will play a unique and important role in China's regional development and opening-up policy. However, the heavy debt burden of the local government and state-owned enterprises of Chongqing might affect the regional financing.

**Exhibit 4. Key Economic and Fiscal Indicators of Chongqing City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	2,789.4	2,912.9	3014.6
GRP Growth (%)	8.3	2.6	6.1
General Budgetary Revenue (RMB billion)	228.5	210.3	244.1
General Budgetary Expenditure (RMB billion)	483.5	489.3	530.5
Local Government Debt (RMB billion)	861.0	1,007.1	1225.8

Source: Statistic Bureau of Chongqing City, CCXAP research

Located in the southwest of Chongqing City, Nan'an District is one of nine core districts in Chongqing City and part of the "Core Area Surrounded by Two Rivers and Four Banks". The economic development of Nan'an District relies on advanced manufacturing industry and modern services industry. With the resumption of economic activities starting from late 2022, Nan'an District's GRP increased by 6.7% YoY to RMB98.5 billion in 2023. The general budgetary revenue of Nan'an District amounted to RMB6.6 billion in 2023, ranked 6<sup>th</sup> among 38 districts and counties in Chongqing City. For the past three years, the tax revenue accounted for about 76% of general budgetary revenue on average, indicating relatively good fiscal stability. Nan'an District has a moderate fiscal self-sufficiency. In 2023, its fiscal balance ratio was 67.5%. Nan'an District Government's debt has shown an increasing trend, with outstanding debts of RMB30.2 billion at end-2023, accounting for 30.6% of its GRP.

**Exhibit 5. Key Economic and Fiscal Indicators of Nan'an District**

	2021FY	2022FY	2023FY
GRP (RMB billion)	88.1	92.2	98.5
GRP Growth (%)	6.2	0.1	6.7
General Budgetary Revenue (RMB billion)	5.7	5.7	6.6
General Budgetary Expenditure (RMB billion)	8.2	9.1	9.7
Local Government Debt (RMB billion)	22.8	25.3	30.2

Source: Statistic Bureau of Nan'an District, CCXAP research

**Government's Willingness to Provide Support****High strategic importance to the development of Nan'an District**

CQNA is the largest entity to undertake municipal infrastructure construction projects and the only entity to undertake shantytown renovation projects in Nan'an District. It is also one of the few entities to undertake primary land development in Nan'an District. Since its establishment, the Company has undertaken and completed a large number of projects of high strategic importance to the development of Nan'an District. Accordingly, this has well-positioned the Company to become a key entity to implement the local government's blueprint for developing Nan'an District. Given its strategic positioning in Nan'an District, we expect that the Company's important role will not be easily replaced by other companies in the foreseeable future.

**Dominant position of public policy projects in Nan'an District**

As the main force for primary land development and infrastructure construction in Nan'an District, CQNA has played a key role in implementing the local government's development plan for Nan'an District. The Company has undertaken and completed a number of important municipal infrastructure construction and shantytown renovation projects in Nan'an District. We expect that the Company's vital position in Nan'an District could ensure its business sustainability of public policy projects.

Commissioned by the local government, CQNA has continued to operate infrastructure construction business in Nan'an District, with stable development momentum. However, there are a number of infrastructure construction projects in the pipelines, exerting high capital expenditure pressure to the Company. As of 30 September 2023, the Company had 7 infrastructure construction projects under construction or planning, including roads and hospitals, with a total estimated investment of RMB8.2 billion and an outstanding amount of RMB5.2 billion.

In addition, CQNA has undertaken a number of shantytown renovation projects in Nan'an District under government procurement model on an exclusive basis. As of 30 September 2023, CQNA has invested RMB12.5 billion in the shantytown renovation projects under construction, with uninvested amount of RMB6.4 billion. The large number of projects under construction can ensure the sustainability of the business, albeit exerting high capital expenditure pressure to the Company. However, the Company has been granted long term credit facilities for the shantytown renovation projects from several large banks, securing the funding source of the projects.

Moreover, authorized by the local government to undertake primary land development in Nan'an District, CQNA has continued to demonstrate its dominance in primary land development in Nan'an District. As the Company has basically completed the land consolidation of its land reserves, the area of land consolidation has reduced in recent years. The Company completed 300 mu of land consolidation in 2022, with an investment of RMB110 million. As of 30 September 2023, the Company had 2 land parcels under consolidation, with a total estimated investment of RMB5.6 billion and an outstanding amount of RMB400 million. However, the primary land development business is highly susceptible to the condition of the local land market, resulting in its fluctuations. Given its land reserves of about 3.7 million square meters as of end-2023Q3, we expect the Company will recognize land consolidation revenue gradually with the local land sale plan.

#### **Low exposure to commercial activities**

In addition to public activities, CQNA is also involved in various commercial activities such as sports services, tourism highway operation and property leasing. We consider CQNA's commercial business exposure to be low, as its market-driven businesses account for less than 10% of its total assets.

CQNA owns the operation rights to the Nanshan Tourism Highway, which has provided a stable income to the Company. CQNA received a fixed annual income of RMB13.1 million every year. As of 2023Q3, the gross margin was 22.9%. The Company has also engaged in the sports services business since 2019, providing support services to urban sports events such as the Marathon Championship. As the most important state-owned asset operation entity in Nan'an District, the Company also involved in property leasing business, including offices, residential housings, and factories buildings. As of 30 September 2023, the Company had 6 major properties for leasing, with a total leasable area of approximately 0.9 million sqm and occupancy rate of 80%. While the small operating scale of commercial activities limits its commercial business exposure, it also limits its contribution to the Company's cash flow.

#### **Solid track record of receiving local government support**

As the most important infrastructure construction and state-owned assets operation entity in Nan'an District, CQNA has a track record of receiving payments from Nan'an District Government. These payments take various forms, such as policy supports, project grants, special funds, tax refunds and financial subsidies. In 2023, the Company has received government subsidies of RMB528 million from the Nan'an District Government. The Company also regularly receives payments for its public projects. In 2022, the Company receives project

payments of RMB1.1 billion. Given CQNA's important strategic role and its contribution to the regional economic development, we expect the Company will continue to receive support from Nan'an District Government in the future.

### **High debt leverage**

Due to the ongoing construction of public activities projects, the debt burden of CQNA has increased modestly, showing a relatively good debt management. Its total debt had increased from RMB32.7 billion at end-2022 to RMB33.4 billion as of 30 September 2023, but maintained at a high capitalization ratio of 60.1%. However, the Company's debt structure has further improved. As of 30 September 2023, its short-term debt declined to RMB3.2 billion, accounting for 9.9% of total debt, as compared with RMB4.3 billion and 13.3% at end-2022, respectively. However, more than RMB10 billion of its debt will be expired in 2024, posing certain refinancing risks to the Company. Additionally, more than half of the bond financing was obtained through offshore bonds, which is vulnerable to fluctuations in offshore capital markets and exchange rates. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

### **Moderate asset liquidity**

CQNA's asset liquidity is moderate, as most of its assets are inventories and receivables with low liquidity, causing capital occupation. As of 30 September 2023, the Company's inventories amounted to RMB17.2 billion, accounting for 24.7% of total assets. Most of the inventories were development costs from infrastructure projects and land reserves. Its total receivables amounted to RMB33.5 billion, accounting for 48.1% of total assets. The total receivables mainly consisted of advances for the shantytown renovation business, uncollected project payments from the local government and other state-owned enterprises in Nan'an District.

### **Diversified access to funding**

CQNA has diversified source of funding mainly including banks loans and bond issuances. Around 37.9% of its debt was provided by bank loans. The Company also has a sufficient liquidity buffer. As of 30 September 2023, it held a total available credit facilities of RMB8.4 billion. The Company has a track record of fund-raising activities in both onshore and offshore debt capital market, including issuance of MTNs, PPNs, private bonds, and USD bonds. Bond issuance accounted for about 61.2% of its total debt. Large reliance on bond financing may make the Company vulnerable to the fluctuations of capital market. In addition, the Company has low reliance to non-standard financing, which accounted for 0.9% of its total debt.

## **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. CQNA assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

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

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. We believe that CQNA is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

### **Structural considerations**

We did not notch CQNA's senior unsecured debts rating for structural subordination, reflecting our expectation that in the event of financial distress, the government will likely provide support to the Company as the holding company, thereby increasing the recovery prospects for the holding company's creditors. We also see that the structural subordination risk is mitigated by the strategic importance of CQNA's infrastructure and public facility assets, thus we expect that government support will be provided to the Company to preserve its ownership of such assets.

### **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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