

Credit Opinion

10 April 2024

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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Qixian State-owned Construction Investment Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Qixian State-owned Construction Investment Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Qixian State-owned Construction Investment Development Co., Ltd. (“QXSI” or the “Company”) reflects Qi 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 Qi County Government’s capacity to support reflects Qi County’s status as an important agricultural county and third largest county by Gross Regional Product (“GRP”) in Kaifeng City, but constrained by its relatively weak fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in infrastructure construction and state-owned asset operation in Qi County; and (2) track record of receiving government support.

However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities with relatively large investment need in the future; (2) increasing debt level with relatively large short-term debt pressure; and (3) limited and concentrated financing channels.

The stable outlook on QXSI’s rating reflects our expectation that the Qi County Government’s capacity to provide support will be stable, and the Company’s characteristics such as its important position in infrastructure construction and state-owned asset operation in Qi County will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Important infrastructure construction and state-owned asset operation in Qi County
- Track record of receiving government support
- Increasing exposure to commercial activities with relatively large investment need in the future
- Increasing debt level in line with the regional development, but with relatively large short-term debt pressure
- limited and concentrated financing channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Qi County Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as decreased exposure to commercial activities and enhanced financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Qi County Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decreased regional significance or increased exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	7.1	7.4	8.3	8.8
Total Equity (RMB billion)	6.9	7.1	7.8	7.8
Total Revenue (RMB billion)	1.1	1.0	1.1	0.5
Total Debt/Total Capital (%)	N.A.	N.A.	0.4	2.4

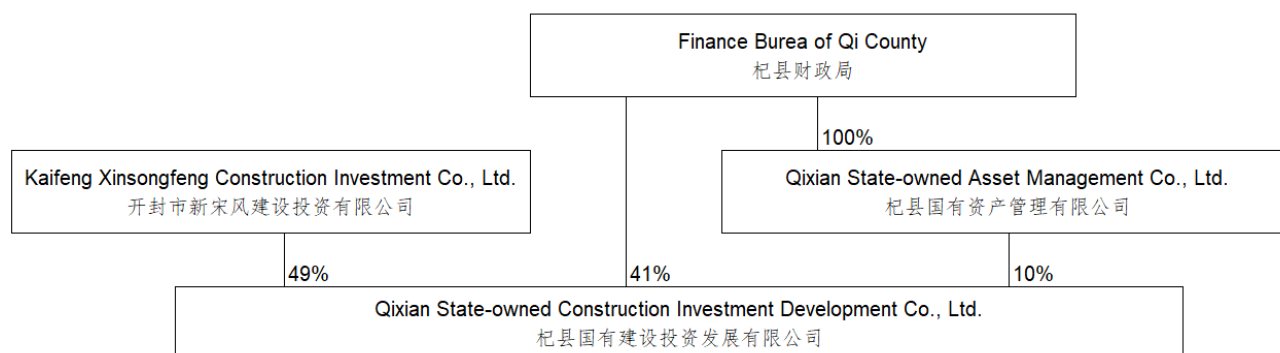
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

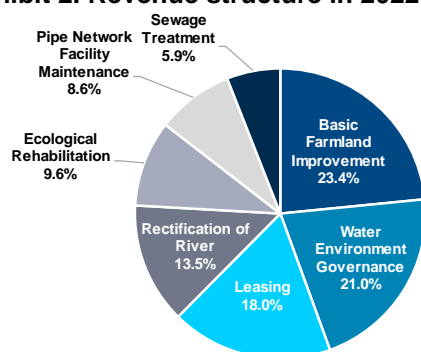
Established in 2016, QXSI is one of the key local infrastructure investment and financing companies ("LIIFCs") in Qi County and is mainly responsible for infrastructure construction in the county. The Company's infrastructure construction projects include basic farmland improvement, water environment governance, rectification of river, ecological rehabilitation, pipe network facility maintenance, as well as sewage treatment. The Company has also participated in other commercial business, such as self-operated project construction and leasing. As of 31 March 2024, the Finance Bureau of Qi County directly owned 41% of the Company's shares and indirectly owned 10% of the shares through Qixian State-owned Asset Management Co., Ltd. The remaining 49% of shares were owned by Kaifeng Xinsongfeng Construction Investment Co., Ltd. ("KXSF"), which is one of the LIIFCs in Kaifeng City indirectly and wholly owned by the Finance Bureau of Kaifeng City. Qi County Government was the actual controller of the Company.

Exhibit 1. Shareholding chart as of 31 March 2024



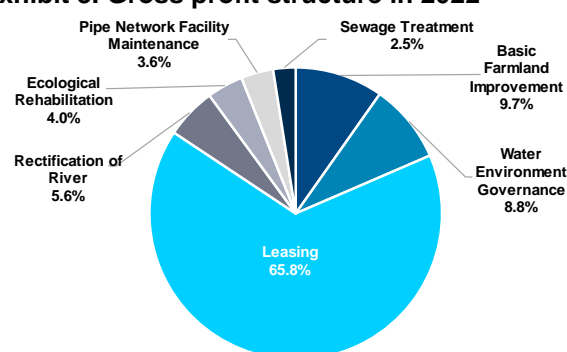
Source: Company information, CCXAP research

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 Qi County Government has a relatively strong capacity to provide support, reflects Qi County's status as the important agricultural county and third largest county by GRP in Kaifeng City, but constrained by its relatively weak fiscal metrics.

Henan Province is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's GRP ranked 6th among all provinces in China in 2023.

Kaifeng City is located in the middle eastern of Henan Province, which is the emerging sub-central city in Henan Province and the one of the core cities in the Central Plains Urban Agglomeration and Central Plains Economic Zone. Kaifeng City is also the one of the first batch of historical and cultural cities named by the State Council of China, demonstrating rich cultural tourism resources. Kaifeng City has initially formed ten major industrial clusters including automobile and auto parts, equipment manufacturing, high-end chemicals, new materials, food processing, textile and apparel, photovoltaics, timber industry, biopharmaceuticals, and electronic information. In 2023, it reported a GRP of RMB253.4 billion, representing 0.9% Year-over-Year ("YoY") growth. From 2020 to 2022, Kaifeng Municipal Government's general budgetary revenue demonstrated ongoing growth, In 2022, Kaifeng Municipal Government's general budgetary revenue increased to RMB19.9 billion from RMB16.0 billion in 2020. However, the general budgetary revenue sharply decreased to RMB15.4 billion in 2023. Moreover, Kaifeng Municipal Government's fiscal balance ratio (general budgetary revenue/general

budgetary expenditure) was relatively low, averaging at 40.8% over the past three years. Kaifeng Municipal Government highly relied on fiscal support from higher-tier government. In addition, the Kaifeng Municipal Government's government fund revenue significantly decreased to RMB10.6 billion in 2023 from RMB21.0 billion in 2021 due to the reduction of transfer income of state-owned land use rights. As of 31 December 2023, the outstanding debt amount of Kaifeng Municipal Government was RMB73.7 billion, accounting for 29.1% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Kaifeng City

	2021FY	2022FY	2023FY
GRP (RMB billion)	255.7	265.7	253.4
GRP Growth (%)	7.2	4.3	0.9
General Budgetary Revenue (RMB billion)	17.9	19.9	15.4
General Budgetary Expenditure (RMB billion)	42.9	45.6	41.4
Local Government Debt (RMB billion)	49.1	62.4	73.7

Source: Kaifeng Municipal Government, CCXAP research

Qi County is a county-level city under the jurisdiction of Kaifeng City and is located in the east of Henan Province. As an important agricultural county in Henan Province, Qi County has formed agricultural products production bases for garlic, peppers, peanuts, cotton, wheat, cauliflower, and edible fungi. Qi County is also the key county for animal husbandry development in Henan Province. After years of development, Qi County has developed key industries such as chemical manufacturing, textile production, papermaking, leather processing, machinery manufacturing, grain processing, vegetable processing, garment manufacturing, and magnetic materials. From 2021 to 2023, Qi County's GRP was RMB40.8 billion, RMB42.7 billion, RMB39.3 billion respectively, ranking top 3 among all districts and counties in Kaifeng City. The decrease of Qi County's GRP in 2023 is caused by decline of value-added industrial output and fixed-asset investment in Qi County, indicating economic downside risk. In 2023, Qi County Government's general budgetary revenue decreased to RMB1.4 billion from RMB2.2 billion in 2021 due to the reduction of tax revenue. The fiscal metrics of Qi County Government were relatively weak, with average fiscal balance ratio of 34.8% over the past three years. Qi County Government highly relied on fiscal support from higher-tier government, with an average annual transfer income of around RMB3.5 billion over the past three years. As of 31 December 2023, the outstanding debt of Qi County Government was RMB7.0 billion, accounting for 17.9% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Qi County

	2021FY	2022FY	2023FY
GRP (RMB billion)	40.8	42.7	39.3
GRP Growth (%)	7.8	4.8	-1.0
General Budgetary Revenue (RMB billion)	2.2	2.3	1.4
General Budgetary Expenditure (RMB billion)	5.9	6.2	4.6
Local Government Debt (RMB billion)	4.7	6.1	7.0

Source: Qi County Government, CCXAP research

Government's Willingness to Provide Support

Important role in infrastructure construction and state-owned asset operation in Qi County

There are 4 major LIIFCs in Qi County, which are Qixian Urban Development Investment Co., Ltd. ("QXUD"), Qixian Yuze Urban and Rural Development and Construction Co., Ltd. ("QXYZ"), Qixian Water Investment

Urbanization Construction Co., Ltd. ("QXWI"), and QXSI. QXUD is the largest LIIFC by total assets and mainly in charge of the local urban construction. QXYZ is responsible for resettlement housing construction, while QXWI mainly focus on river training projects in Qi County.

As the significant state-owned asset operation entity in Qi County, QXSI is primarily responsible for the local infrastructure construction and state-owned asset operation. The Company undertakes infrastructure construction mainly through agency construction model, the Company is entrusted by local state-owned enterprises or the local government to conduct project construction. The Company has completed several infrastructure construction projects include basic farmland improvement, water environment governance, rectification of river, ecological rehabilitation, pipe network facility maintenance, as well as sewage treatment. These projects are essential to the local agricultural development and social development. QXSI will focus on the agricultural infrastructure construction in the future.

Track record of receiving government support

QXSI has track record of receiving support from the local government in the form of asset injection and equity transfer. From 2020 to 2022, the local government transferred infrastructure construction projects, office buildings, operating right of parking lots to the Company, which enlarged QXSI's business scope and capital strength. In 2023, the local government transferred 100% shares of some state-owned enterprises to QXSI, increasing its capital reserve by RMB9.2 million. However, the government's payments for the Company's infrastructure construction project and rent are relatively slow. As of 30 September 2023, the Company had total account receivables of RMB3.9 billion from the local government. Considering the Company's important position in infrastructure construction and state-owned asset operation in Qi County, we expect QXSI will continue receiving support from the local government.

Increasing exposure to commercial activities with relatively large investment need in the future

QXSI is engaged in commercial activities, mainly including leasing. QXSI's exposure to commercial activities is medium, accounting for around 30% of the total assets. However, majority of these commercial assets are leasable assets transferred by the local government. The Company also participates in industrial park construction and operation, which may bring more capital expenditure pressure to the Company in the future.

The main leasable assets of the Company are parking lots and buildings, which were transferred by the local government. The main tenants of the leasing business are government institutions. From 2020 to 2022, the Company has generated leasing revenue of RMB160.6 million, RMB160.6 million, RMB195.9 million, respectively. However, the rent payment from government institutions is slow. As of 30 September 2023, the receivables of rental income were RMB670 million.

Moreover, the Company also participates in industrial park construction and operation. As of 30 September 2023, there was one agricultural product processing industrial park under planning, with a total investment amount of RMB1.0 billion. This industrial park was built to promote the local agricultural development. The Company expects to achieve fund balance through future operation of the projects, such as leasing income. However, the relatively large-scale of self-operated project under planning may increase the Company's future investment pressure and bring higher operating risk to the Company. Moreover, the investment recovery cycle of the self-operated project is long, making it more difficult to achieve fund balancing in short period of time. In addition, the Company would start property development business in 2024, which may bring more operating uncertainties and financial risks to the Company especially during the downturn of property market.

Increasing debt level in line with the regional development, but with relatively large short-term debt pressure

Due to the ongoing investment needs for its infrastructure construction projects in recent years, QXSI's total debt has been increasing. The Company started to finance for its construction projects in 2022. Its total debt increased to RMB189.6 million as of 30 September 2023 from RMB35.0 million as of end-2022. As of 30 September 2023, its total capitalization ratio, as measured by total debt to total capital, was only 2.4%. However, the Company bears relatively large short-term debt pressure due to its high reliance on working capital loans. The short-term debt of the Company was RMB160.1 million as of the same date, accounting for 84.4% of its total debt. Meanwhile, the cash to short-term debt ratio was less than 0.1x. Considering the future investment for construction projects, we expect the Company would continue to rely on external financings such as bank loans, and the total debt would further increase over the next 12-18 months.

Apart from that, the Company has provided loans to a local private-owned real-estate development enterprise, namely Kaifeng Mingxin Real Estate Co., Ltd. ("Kaifeng Mingxin"). As of 30 June 2023, the Company had total loan receivable from Kaifeng Mingxin of RMB9.5 million. QXSI has received some properties from Kaifeng Mingxin as collaterals.

Limited and concentrated financing channels

The Company has limited and concentrated financing channels. The main financing channel of QXSI is bank loan, accounting for more than 80% of its total debt. All the bank loans were provided by Qixian Rural Commercial Bank Co., Ltd., at an average financing cost of around 6%. Moreover, the available bank facilities were limited. One of the Company's shareholders KXSF is expected to provide loan guarantees to QXSI to enhance the Company's financing ability. The Company is also expected to enlarge its financing channels to debt capital market. As of 31 March 2024, KXSF had not provide any loan guarantee to QXSI yet.

ESG Considerations

QXSI bears environmental risks through its infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

QXSI bears social risks as it implements public policy initiatives by building public infrastructure in Qi 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.

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

Structural considerations

QXSI's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its important position in infrastructure construction and state-owned asset operation in Qi 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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