

Credit Opinion

30 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

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Iris Chen +852-2860 7132
Credit Analyst
iris_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
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

Feixi County Rural Revitalization Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Feixi County Rural Revitalization Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Feixi County Rural Revitalization Investment Group Co., Ltd. (“FRIC” or the “Company”) reflects the Feixi County Government’s (1) strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the Feixi County Government’s capacity to provide support reflects Feixi County’s relatively good comprehensive strength, with fast 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 as the main rural infrastructure construction platform in Feixi County; (2) good sustainability of public policy businesses; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company’s (1) moderate access to funding channels with limited financial flexibility; (2) rapid debt growth driven by large investment needs; and (3) weak asset liquidity.

The stable outlook on FRIC’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its dominant position in the rural infrastructure and resettlement housing development in Feixi County.

Rating Drivers

- Important position as the main rural infrastructure construction platform in Feixi County
- Solid track record of receiving government payments
- Low but rising exposure to commercial activities
- Rapid debt growth driven by large investment needs
- Weak asset liquidity
- Moderate access to funding channels with limited financial flexibility

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 enhanced regional significance and improved financing channels.

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 and increase exposure to commercial activities.

Key Indicators

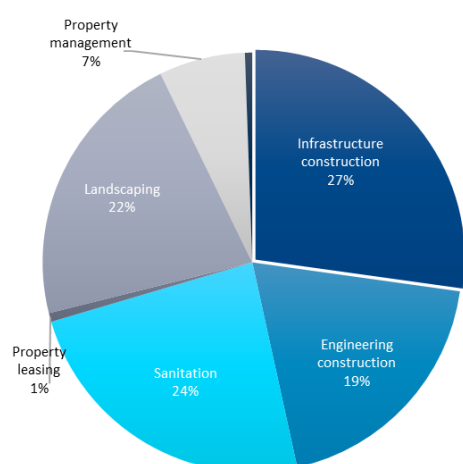
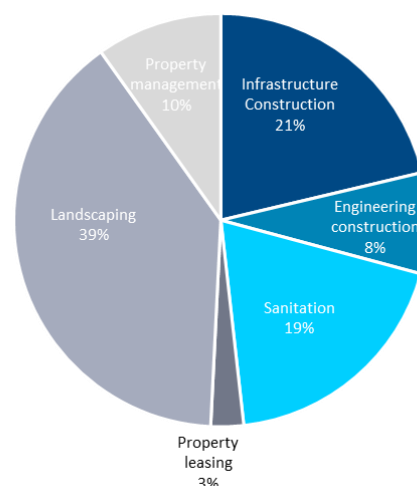
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	2.3	2.3	8.8
Total Equity (RMB billion)	0.1	1.1	4.3
Total Revenue (RMB billion)	0.0	0.7	1.1
Total Debt/Total Capital (%)	-	3.6	33.8

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2018, FRIC, formerly known as Feixi County Rural Revitalization Construction and Development Co., Ltd. became one of the key local infrastructure investment and financing Companies ("LIIFCs") in Feixi County after equity transfer and capital increase since 2020. The Company is mainly responsible for rural infrastructure construction and resettlement housing construction in Feixi County. It also engages in several commercial activities, including sanitation, property leasing, landscaping, property management and self-operated project construction. As the end of 2023, the State-owned Assets Supervision and Administration Commission of Feixi County People's Government ("Feixi SASAC") was the ultimate controller of the Company, holding 100% stakes of the Company.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Feixi County Government has a strong capacity to provide support to the Company, given its relatively good comprehensive strength, with fast economic growth and good fiscal stability.

Hefei City, the provincial capital of Anhui Province, is located in the central part of Anhui Province and the west part of Yangtze River Delta. On the back of prominent strategy position in regional development, Hefei City is the province's political, economic, cultural, information, transportation, financial and commercial center. Hefei City has formed pillar industries, including automobiles, electronic equipment, electronic information, photovoltaics as well as new energy industry, developing a solid foundation for economic development. Hefei City's economy has demonstrated a fast growth trend over the past years. Benefiting from the ongoing development of its pillar industries, Hefei City's GRP increased by 5.8% year-on-year ("YoY") to RMB1.3 trillion in 2023, ranking 10th among provincial capitals and 20th among municipalities and prefecture-level cities in China, respectively. Hefei City Government maintains a stable fiscal strength. The general budgetary revenue of Hefei City increased to RMB93.0 billion in 2023 from RMB90.9 billion in 2022, representing a 2.2% YoY growth rate. It also has good fiscal stability with tax income contributing to over 70% of the general budgetary revenue over the past three years. As the end of 2023, the outstanding direct government debt balance of Hefei Municipal Government amounted to RMB225.9 billion, accounting for 12.5% of its GRP for that year.

Exhibit 3. Key Economic and Fiscal Indicators of Hefei City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,141.3	1,201.3	1,267.4
GRP Growth (%)	9.2	3.5	5.8
General Budgetary Revenue (RMB billion)	84.4	90.9	93.0
General Budgetary Expenditure (RMB billion)	122.4	138.0	141.1
Local Government Debt (RMB billion)	150.1	190.3	225.9

Source: Statistic Bureau of Hefei City, CCXAP research

Feixi County, is located in the south of Hefei City and also an important hub connecting the Hefei Economic Circle and the Wanjiang Urban Belt Industrial Transfer Demonstration Zone. According to the Ranking of China's Top 100 Counties in terms of Comprehensive Strength released by CCID Consulting County Economic Research Center, directly under the Ministry of Industry and Information Technology, Feixi County ranks 54th in 2023, listed among the top 100 counties in the country for 13 consecutive years. With advantageous geographical location, Feixi County has developed eight leading industries, including automobile manufacturing, electrical machinery, equipment manufacturing, rubber and plastic products manufacturing, metal products manufacturing, agri-food processing, non-metallic mineral products manufacturing and chemical materials. Moreover, the fast development of business service industry and tourism industry gave impetus to Feixi County's economic. Thanks to rapid industrial economic development and increasing social consumption, Feixi County achieved fast economic growth in recent years. From 2021 to 2023, Feixi County's GRP increased from RMB101.9 billion to RMB115.4 billion, ranking the first among 59 county-level cities in Anhui Province. With the ongoing development of the regional economy, Feixi County's fiscal income has also increased. From 2021 to 2023, its general budgetary revenue increased from RMB5.9 billion to RMB7.4 billion with a CAGR of 7.7%. Meanwhile, Feixi County Government has relatively strong fiscal strength and a manageable debt profile. The average general budgetary revenue/general budgetary expenditure ratio of 64.1% from 2021 to 2023. During the same period, Feixi County had an outstanding direct government debt balance of RMB14.4 billion, accounting for 12.5% of the Feixi County's GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Feixi County

	2021FY	2022FY	2023FY
GRP (RMB billion)	101.9	106.8	115.4
GRP Growth (%)	13.7	4.1	7.7
General Budgetary Revenue (RMB billion)	5.9	6.4	7.4
General Budgetary Expenditure (RMB billion)	8.8	10.3	11.6
Local Government Debt (RMB billion)	11.7	12.6	14.4

Source: Statistic Bureau of Feixi County, CCXAP research

Government's Willingness to Provide Support

Important position as the main rural infrastructure construction platform in Feixi County

Apart from the Company, there are other two key LIIFCs in Feixi County, which are Feixi County Changcheng Investment Holding (Group) Co., Ltd. ("FCIG") and Feixi County Sanhe Cultural Tourism Development Co., Ltd. ("FSCT"), each with clear positioning in the development of the region. FCIG is the largest and most important infrastructure construction entity in the region, mainly responsible for urban infrastructure construction and resettlement housing construction in Feixi County and other businesses including investment management, security services and property management. FSCT is mainly engaged in cultural tourism and hotel operation management businesses. As one of the key infrastructure construction entities in Feixi County, FRIC plays a vital role in public policy businesses in the region. Entrusted by the Feixi County Government, the Company undertakes the construction of rural infrastructure and resettlement housing within Feixi County with strong regional franchise advantages, which provide significant strategic importance for the local government and benefits to the local social and economic development. Considering its strategic importance in undertaking public policy projects in Feixi County, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good sustainability of public policy businesses

As an important rural constructor and operator in Feixi County, FRIC's rural infrastructure construction projects and resettlement housing construction projects are crucial to local social and economic development, as well as local tourism development. The Company has sufficient construction projects in the pipelines, ensuring its sustainability of public policy businesses but exerting certain capital expenditure pressure.

The Company conducts infrastructure construction and resettlement housing construction business mainly through an agency construction model. Under the agent construction model, FRIC enters into an agency construction agreement with the related departments of the Feixi County Government and the related departments will pay the total cost plus 12% markups annually to the Company. Besides, some of infrastructure construction projects are funded in advanced by the local government through special funds, which can alleviate the Company's investment pressure. As at the end of 2023, the Company had completed 9 key infrastructure construction projects, such as rural revitalization projects and forest fire prevention road construction projects, with a total investment of RMB0.6 billion. From the perspective of project reserves, the Company had 27 infrastructure construction and resettlement housing construction projects under construction at end-2023, with a total planned investment of RMB14.6 billion and an uninvested amount of RMB7.6 billion. Furthermore, the Company had 13 projects under planning with an outstanding investment amount of RMB3.1 billion. We believe FRIC's large pipeline of public policy projects assigned by the government demonstrated its leading position in the development of Feixi County.

Low but rising exposure to commercial activities

In addition to public activities, FRIC also engages in various commercial activities, such as sanitation, property leasing, landscaping, property management and self-operated project construction. We consider FRIC's commercial business exposure to be low, as its market-driven businesses accounted for around 15% of its total assets as the end of 2023. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks. We expect the Company's exposure to commercial activities will continue to rise following its increasing investment in self-operated projects in the future.

The Company is involved in the sanitation business and landscaping business through its subsidiaries with monopoly advantages in the region, which have generated considerable amount of revenue to the Company, accounting for around 23.9% and 21.7% of the total revenue in 2023, respectively. The sanitation business covers the entire area of Feixi County, serving 20 million square meters of road cleaning in the main urban area and agricultural environment management in 126 villages of 7 towns including Sanhe, Mingchuan, Fengle, and Shishu while the landscaping business takes charge of environmental improvement projects, road greening improvement projects, community greening projects and wetland park comprehensive management projects in Feixi County. We expect the sanitation business and landscaping business can provide stable income to the Company in the future given their monopoly position in the region.

The Company is also involved in the property leasing business and is responsible for leasing of farmers' markets and operation of homestay. In addition, the Company also provides property management services to over 35 resettlement housing in Feixi County. However, the small operating scale limits their contribution to the Company's overall income.

Meanwhile, the Company also engaged in self-operated projects including rural cultural tourism projects and modern agriculture projects, which aims to promote local industry and improve people's livelihood. After these projects are completed, the Company generates profits from property sales, leasing and operations for fund balance. As the end of 2023, the Company had completed 2 self-operated projects with a total investment of around RMB0.9 billion, while it had 3 self-operated projects under construction, with a total investment amount

of RMB1.8 billion and an outstanding amount of RMB0.7 billion. Although the initial investment amount is relatively large, funds from special government bonds can alleviate part of the capital pressure. However, since these self-construction projects are highly subject to local industrial development and the progress of investment attraction, which may bring greater operational uncertainties and financial risks to this business.

Solid track record of receiving government payments

In recognition of the importance of public activities in Feixi County, FRIC has received recurring financial support, including financial subsidies, asset and capital injection from the Feixi County Government. In 2023, the Company received capital injection of RMB60 million in total from the Feixi SASAC, enhancing FRIC's capital strength. From 2022 to 2023, the local government also transferred assets with total value of about RMB3.1 billion, including cash, land use rights, and properties, to the Company without compensation to enhance its capital strength and broaden its business scope. The Company also received project repayment for its infrastructure construction projects of RMB21.2 million and government subsidies of RMB28.8 million in 2023. FRIC also received special bonds as an important form of government financial support, totaling RMB3.4 billion from 2020 to 2023, facilitating its capital-intensive investments. Given FRIC's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

Exhibit 5. Government Support from 2021 to 2023

(RMB million)	2021FY	2022FY	2023FY
Government Subsidies	-	-	28.8
Asset Injection	-	993.0	2,082.0
Capital Injections	-	-	60.0
Project Repayments	-	-	21.2
Special Bonds	1,960.0	200.0	1,230.0
Total	1,960.0	1,193.0	3,422.0

Source: Company information, CCXAP research

Rapid debt growth driven by large investment needs

Because the Company conducted business in 2021 and large capital expenditure for infrastructure consolidation and resettlement housing construction projects has been incurred since then, FRIC's total debt has grown rapidly since 2021. The Company's total debt had increased to RMB2.2 billion at end-2023, with reasonable total capitalization ratio of 33.8%. In addition, as the end of 2023, its short-term debt accounted for about 21.3% of its total debt, and cash to short-term debt ratio was 3.7x, indicating manageable debt servicing pressure in the short term. However, the Company's investment needs for infrastructure consolidation and resettlement housing construction projects are expected to maintain at a relatively high level. Therefore, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

The Company has certain exposure to external guarantees while the contingent risk would be controllable. At end-2023, the Company's external guarantees amounted to RMB0.6 billion, accounting for 14.0% of its net assets. All the external guarantees were provided to a local state-owned enterprise in Feixi County which is likely to be supported by the local government when necessary.

Weak asset liquidity

In addition, FRIC has weak asset liquidity. The Company's total asset mainly consists of inventories and account receivables, which accounted for 62.2% of its total assets at end-2023. Inventories were mainly investment

costs for infrastructure construction projects and resettlement housing construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

Moderate access to funding channels with limited financial flexibility

The Company shows moderate access to funding as its financing channels are mainly bank loans and non-standard financing. As the end of 2023, around 80.8% of the Company's debt financing was provided by domestic banks with total credit facilities of RMB10.7 billion and available credit facilities of RMB8.2 billion, indicating a sufficient liquidity buffer. Meanwhile, the Company's exposure to non-standard financing, mainly financial leasing, is relatively high, accounting for around 19.2% of total debt at end-2023. We expect the Company will continue to broaden its financing channels by increasing credit facilities and issuing onshore and offshore bonds.

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. FRIC 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.

FRIC is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Feixi County. 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. FRIC believes that it 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

FRIC's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its key roles in the development of Feixi 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 \(July 2022\)](#).

Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656