

## Credit Opinion

24 May 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Xiangtan Urban & Rural Construction Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+** to **Xiangtan Urban & Rural Construction Development Group Co., Ltd.**, with **stable outlook**.

### Summary

The BBB<sub>g</sub>+

Our assessment of Xiangtan Municipal Government's capacity to provide support reflects Xiangtan City's key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth. However, it is also constrained by heavy regional debt burden caused by excessive financing for infrastructure construction in the past years, which is partially mitigated by China's measures to resolve hidden government debt in the short term.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) leading position in infrastructure construction and land development of Xiangtan City; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) weak asset liquidity; and (2) moderate exposure to contingent liabilities.

The stable outlook on XCDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its leading position in the development of Xiangtan City.

## Rating Drivers

- Leading position in infrastructure construction and land development of Xiangtan City
- Low exposure to from commercial activities
- Good track record of receiving government support
- Reducing debt burden
- Weak asset liquidity
- Improving access to funding
- Moderate exposure to contingent liabilities

## 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 reduction in exposure to contingent liabilities.

### 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 reduced regional significance or weakened access to funding.

## Key Indicators

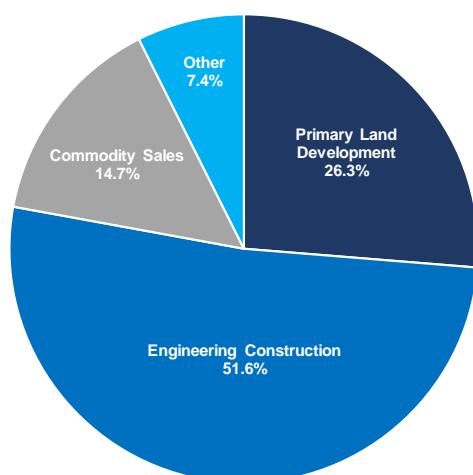
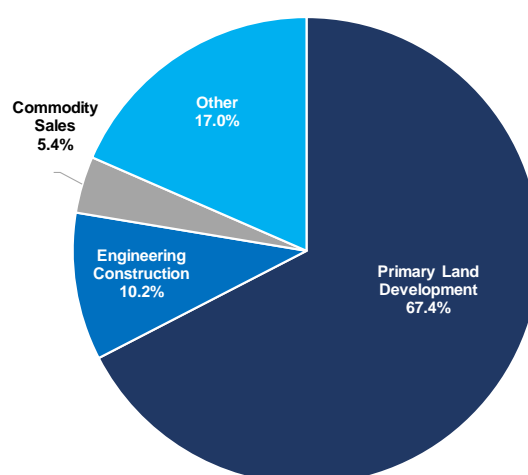
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	88.5	89.0	87.7
Total Equity (RMB billion)	31.0	31.2	31.5
Total Revenue (RMB billion)	2.5	1.5	1.9
Total Debt/Total Capital (%)	62.1	62.2	55.4

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

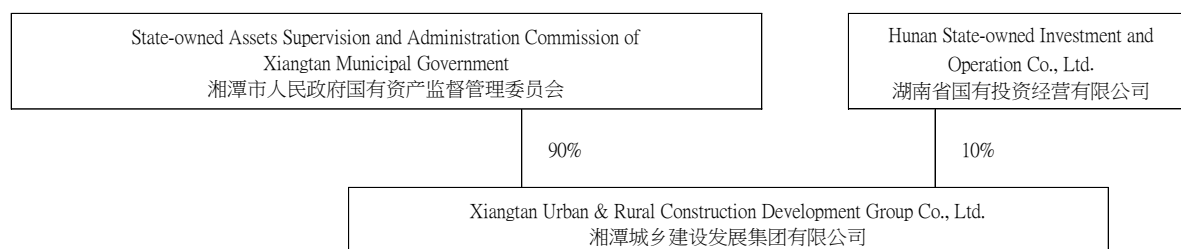
Source: Company data, CCXAP research

## Corporate Profile

Established in 2012, XCDG is the major local infrastructure investment and financing company ("LIIFC") in Xiangtan City, primarily focusing on infrastructure construction and primary land development as well as state-owned assets operation and management. In addition, the Company is also engaged in commercial activities such as commodity sales and engineering construction businesses. As of 31 December 2023, XCDG was 90% owned by State-owned Assets Supervision and Administration Commission of Xiangtan Municipal Government ("Xiangtan SASAC"), and Hunan State-owned Investment and Operation Co., Ltd. held the remaining 10%. Xiangtan SASAC is the ultimate controlling shareholder of the Company.

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

Source: Company information, CCXAP research

**Exhibit 3 Shareholder structure as of 31 December 2023**

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe Xiangtan Municipal Government has a strong capacity to provide support given Xiangtan City's key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth. However, it is also constrained by heavy regional debt burden caused by excessive financing for infrastructure construction in the past years.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2023, the gross regional product ("GRP") of Hunan Province was RMB5.0 trillion, ranking 10<sup>th</sup> among all provinces in China. Benefited from economic recovery and industrial development, the provincial government's general public budget revenue increased to RMB336.1 billion in 2023 from RMB310.2 billion in 2022, with tax revenue accounting for 65.7% of its general public budget revenue.

Located in the center of Hunan Province, Xiangtan City is an important part of the Changsha-Zhuzhou-Xiangtan City Cluster, which has focused on the development of pillar industries, such as specialized equipment,

automobile manufacturing, aviation industry, and supply chain. Xiangtan City is a transportation hub in the central region of China, with the Beijing-Guangzhou Railway and the Shanghai-Kunming Railway lines intersecting in the city. Xiangtan City is also an important base for the mechanical and electrical industries in China, where key sectors such as metallurgy, electromechanical, textiles, chemical engineering and building material manufacturing form competitive pillar industries. Its GRP increased to RMB274.2 billion in 2023 from RMB254.8 billion in 2021, ranking 7<sup>th</sup> by GRP among 14 prefecture-level cities/ autonomous prefectures in Hunan Province. The general budgetary revenue of Xiangtan City decreased from RMB12.7 billion in 2021 to RMB12.4 billion in 2023 due to the tax reduction policy. However, Xiangtan City's fiscal balance is moderate, with the ratio of general budgetary revenue to general budgetary expenditure averaging at 45.7% in the past three years.

#### Exhibit 4. Key Economic and Fiscal Indicators of Xiangtan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	254.8	269.8	274.2
GRP Growth (%)	7.8	4.6	5.1
General Budgetary Revenue (RMB billion)	12.7	12.7	12.4
General Budgetary Expenditure (RMB billion)	27.4	27.0	28.4
Local Government Debt (RMB billion)	79.1	96.0	177.9

Source: Statistic Bureau of Xiangtan City, CCXAP research

Xiangtan Municipal Government's capacity to support is constrained by its heavy regional debt burden caused by excessive financing for infrastructure construction in the past years. As of end-2023, its government debt balance amounted to RMB177.9 billion, accounting for 64.9% of GRP. Supported by the Central and provincial government's measures to resolve hidden government debt, Xiangtan City has obtained large support from the special refinancing bonds in 2023, relieving its debt pressure.

#### Government's Willingness to Provide Support

##### Leading position in infrastructure construction and land development of Xiangtan City

There are three key LIIFCs in Xiangtan City, each with clear positioning in the regional development. As the most important LIIFC with the largest assets size in Xiangtan City, XCDG is designated by the Xiangtan Municipal Government to implement the blueprint for the urbanization and development of Xiangtan City. The Company plays a key role in promoting the economic and social development of Xiangtan City, undertaking a wide variety of public policy projects within Xiangtan City, including the construction of important roads, bridges as well as sewage treatment facilities in Xiangtan City. In 2023, Xiangtan Municipal Government plans to further consolidate the local state-owned enterprises, and XCDG's business position will gradually shift from urban constructor to urban operator. Given its strong regional importance in Xiangtan City, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future.

Entrusted by the Xiangtan Municipal Government, the Company undertakes infrastructure construction projects under agent construction model. The Company enters into a repurchase agreement with Xiangtan Municipal Government. Upon construction completion, the local government agrees to buy back the infrastructure project in instalments at a price equal to the investment costs plus a certain markup to the Company. The Company is undertaking a large amount of infrastructure construction projects in Xiangtan City, ensuring its business sustainability. As of 31 December 2023, the Company had 36 infrastructure construction projects under construction, with a total planned investment of around RMB29.0 billion and uninvested amount of around RMB10.7 billion, indicating high capital expenditure pressure. Nonetheless, most of the infrastructure

construction projects are supported by government special funds, partially alleviating its investment pressure. In addition, affected by the slow project settlement progress, there were RMB6.7 billion of completed projects remained unsettled at end-2023, causing uncertainty to the future project payments.

The Company has been authorized to undertake the primary land development projects in Xiangtan City by the local government through its subsidiaries. As of 31 December 2023, the Company had 6 ongoing primary development projects, with total area of 1,589.2 mu and total invested amount of RMB2.0 billion. The Company plans to invest about RMB274 million into land development projects, indicating manageable investment pressure. However, this business is susceptible to local land and property markets.

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

Apart from the public policy activities, XCDG also participates in commercial businesses such as commodity sales and engineering construction businesses. At present, the Company's exposure to commercial businesses is low, accounting for around 10% of its total assets. However, as the Company conducts more market-driven businesses in urban operation in the future, we expect its exposure to commercial activities will increase gradually.

The Company participates engineering construction projects including municipal and gardening engineering construction through its subsidiaries. This business is the largest income source of the Company. In 2023, the revenue from engineering construction business accounted for 51.6% of total revenue, with gross profit margin of around 10%. As of 31 December 2023, the Company had completed 10 engineering construction projects, with the total contract price amount of RMB1 billion, and had 3 projects under construction, with total contract amount of RMB652.6 million. In addition, it had contract at hand with total value of RMB1.5 billion and newly signed contract amounts of RMB1.7 billion, which can ensure its business sustainability.

The Company has been engaged in commodity sales business through its subsidiaries. Trading products mainly include commercial concrete, new energy materials and petroleum. This business has provided supplementary income to the Company. In 2023, the revenue from commodity sales business accounted for 14.5% of total revenue. In addition, this business is subject to high concentration risks as the Company has high reliance on its top 5 customers and suppliers. In 2023, the sales from the top five customers accounted for 86.5% of the total sales and the top five suppliers accounted for 80% of the total procurement.

### **Good track record of receiving government support**

As the important infrastructure construction entity in Xiangtan City, XCDG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Since 2020, the local government has transferred land assets and equity interests of state-owned enterprises to the Company, significantly increasing its capital reserves and expanding its business scope. In 2020, the Company obtained 100% equity of Xiangtan Cultural Tourism Group Co., Ltd., increasing its capital reserve by RMB2.3 million. From 2021 to 2023, the local government has provided subsidies of RMB202.5 million to the Company to support its operations.

In 2023, given the supporting policies for the LIIFCs in Xiangtan City, the local government has provided special funds of about RMB9.6 billion to support its infrastructure construction projects. Given its important position in the development of Xiangtan City, we believe that the Xiangtan Municipal Government will continue to provide support to the Company.

### **Reducing debt burden**

The Company had high debt burden in the past years due to ongoing investment needs for infrastructure construction. Nevertheless, owing to the Company's active debt management and the government's support of special funds, XCDG's debt burden has decreased over the past three years. The Company's total debt had decreased from RMB51.0 billion at end-2021 to RMB39.1 billion at end-2023, with total capitalization ratio of 55.4%. However, it has a relatively high short-term debt repayment pressure. As of 31 December 2023, its short-term debt accounted for about 21.1% of total debt and its cash to short-term debt ratio was 0.2x. Given its large capital expenditure pressure, we expect the Company's debt leverage will remain at high level in the next 12 to 18 months.

### **Weak asset liquidity**

XCDG's asset liquidity is weak, which may undermine its financing flexibility. As of 31 December 2023, the Company's total asset mainly consisted of inventories and other receivables, accounting for 71.4% of its total asset. Inventories are mainly lands and investment costs for land development and infrastructure construction projects, while the other receivables consist of unreceived payments from local state-owned enterprises, all of which are considered to be low liquidity. In addition, as of 31 December 2023, the Company had pledged assets of RMB4.2 billion for loans, accounting for 4.8% of total assets.

### **Improving access to funding due to supporting policies**

XCDG has improving access to funding from banks and bond market supported by the financing policies. The Company has sufficient standby liquidity. As of 31 December 2023, it had obtained total credit facilities of RMB45.8 billion from diversified domestic policy banks and commercial banks, with available amount of RMB9.3 billion. The Company also has access to debt capital markets. From 2020 to 2023, the Company and its subsidiary raised RMB2.8 billion through the onshore debt market. With improved financing environment in Xiangtan City, the Company issued a MTN of RMB910 million in March 2024, with coupon rate of 2.96%. Besides, it has outstanding offshore debt of RMB713 million. In addition, the Company low exposure to non-standard debt, accounting for less than 10% of total debt.

### **Moderate exposure to contingent liabilities**

XCDG's external guarantee exposure is moderate. As of 31 December 2023, its external guarantee amount was RMB3.9 billion, accounting for 12.5% of its total equity. Most external guarantees of the Company are provided to state-owned enterprises in Xiangtan City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

## **ESG Considerations**

XCDG faces environmental risks because it has undertaken infrastructure construction and land development projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

XCDG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Xiangtan City. 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.

XCDG's governance considerations are also material as the Company is subject to oversight by the Xiangtan Municipal Government and has to meet several 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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