

Credit Opinion

17 June 2024

Ratings

Senior Unsecured Debt Rating	A _g -
Long-Term Credit Rating	A _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Fuqing City State-owned Asset Operation & Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Fuqing City State-owned Asset Operation & Investment Co., Ltd., with stable outlook

Summary

The A_g- long-term credit rating of Fuqing City State-owned Asset Operation & Investment Co., Ltd. (“FSAO” or the “Company”) reflects Fuqing City Government’s (1) very 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 Fuqing City Government’s capacity to provide support reflects its economic importance in Fuzhou City and its status as the top 100 Chinese counties/cities in terms of comprehensive development, with strong comprehensive strength, ongoing economic growth, and good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the most important entity for infrastructure construction and state-owned assets operation in Fuqing City; (2) good track record of receiving government support; and (3) diversified funding channels.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) fast debt growth and weak asset liquidity.

The stable outlook on FSAO’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its status as the most important entity for infrastructure construction and state-owned assets operation in Fuqing City.

Rating Drivers

- Most important entity for infrastructure construction and state-owned assets operation in Fuqing City
- High sustainability for public policy businesses
- Medium exposure to commercial activities
- Good track record of receiving government support
- Fast debt growth and weak asset liquidity
- Diversified funding channels

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 strengthened regional significance or reduction in the 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 reduced regional significance or weakened access to funding.

Key Indicators

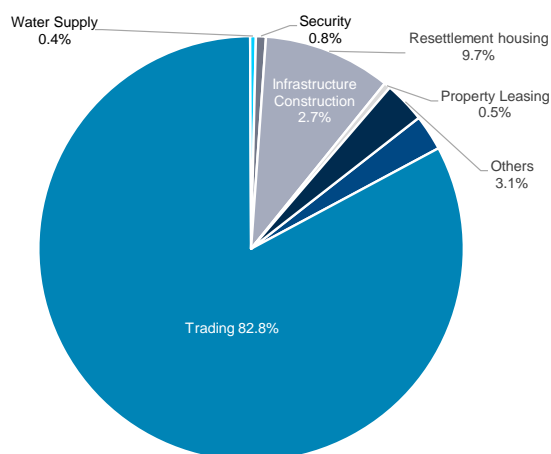
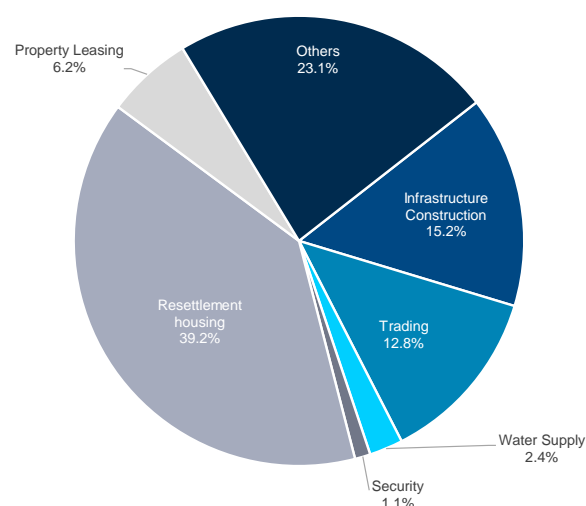
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	40.2	52.6	63.5
Total Equity (RMB billion)	19.6	21.0	22.9
Total Revenue (RMB billion)	1.7	5.6	13.5
Total Debt/Total Capital (%)	17.0	33.5	39.3

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

Source: Company data, CCXAP research

Corporate Profile

Established in 1998, FSAO is the most important local infrastructure investment and financing companies ("LIIFCs") in Fuqing City. The Company is mainly engaged in infrastructure construction, resettlement housing construction, public transport operation, industrial parks development, and water supply in Fuqing City. Apart from its main business, the Company is also engaged in other commercial businesses, such as trading, security services, environmental sanitation, and property leasing. As of 31 December 2023, the Company was wholly owned and ultimately controlled by Finance Bureau of Fuqing City.

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 that the Fuqing City Government has a very strong capacity to provide support, considering Fuqing City's economic importance in Fuzhou City, with strong comprehensive strength, ongoing economic growth, and good fiscal self-sufficiency.

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 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.

Fuzhou City is the capital of Fujian Province and is an important trading port on the southeast coast of China. In recent years, Fuzhou City has formed six pillar industries including textile and chemical fiber, food, machinery manufacturing, metallurgy and building materials, petrochemicals and energy. Benefiting from its good industrial base, Fuzhou City's GRP increased from RMB1,132.4 billion in 2021 to RMB1,292.8 billion in 2023. Fuzhou City maintained a good economic growth rate of 5.2% in 2023, higher than provincial average level. Fuzhou City's general budgetary revenue slightly increased from RMB75.0 billion in 2021 to RMB75.4 billion in 2023, with tax income accounting for 64.5% of its fiscal revenue in 2023. At the end of 2023, Fuzhou City's local government debt balance was RMB219.7 billion, accounting for 17.0% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Fuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,132.4	1,230.8	1,292.8
GRP Growth (%)	8.4	4.4	5.2
General Budgetary Revenue (RMB billion)	75.0	69.9	75.4
General Budgetary Expenditure (RMB billion)	92.5	100.6	100.8
Local Government Debt (RMB billion)	158.8	184.0	219.7

Source: Statistics Bureau of Fuzhou City, CCXAP research

Fuqing City is a county-level city under Fuzhou City. After years of development, Fuqing City has gradually formed the “Fuqing model” of attracting investment led by overseas Chinese, and has formed eight major industries, including electronics, plastics, food, glass, medicine, electricity, chemicals and textiles. Besides, Fuqing City has ranked among the top 20 among the top 100 Chinese counties/cities in terms of comprehensive development. Benefiting from ongoing economic growth and robust industry development, Fuqing City's GRP increased from RMB141.4 billion in 2021 to RMB168.3 billion in 2023 and maintained a good economic growth rate of 6.8% in 2023, much higher than national average level and provincial average level. General budgetary revenue increased from RMB10.5 billion in 2021 to RMB13.1 billion in 2023, with tax income accounting for 57.3%. The GRP and general budgetary revenue of Fuqing City ranks 2nd and 1st respectively among all the districts/counties in Fuzhou City. It has a good fiscal self-sufficiency, with an average fiscal balance ratio of 90% over the past three years. At the end of 2023, Fuzhou City's local government debt balance was RMB24.7 billion, accounting for 14.7% of GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Fuqing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	141.4	160.4	168.3
GRP Growth (%)	10.6	5.7	6.8
General Budgetary Revenue (RMB billion)	10.5	11.7	13.1
General Budgetary Expenditure (RMB billion)	12.5	14.2	12.5
Local Government Debt (RMB billion)	13.9	17.8	24.7

Source: Statistics Bureau of Fuqing City, CCXAP research

Government's Willingness to Provide Support

Most important infrastructure construction and state-owned assets operation entity in Fuqing City

FSAO is the most important infrastructure construction and state-owned assets operation entity in Fuqing City, conducting infrastructure construction, resettlement housing projects, water supply, public transportation operation in Fuqing City. Considering its strategic significance to the development of Fuqing City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future. In addition, the large amounts of construction projects in the pipeline from these public policy businesses, ensuring the sustainability of public policy business, but exerting high capital expenditure pressure.

The Company mainly adopt the agency construction model to conduct infrastructure construction projects with self-raised funds and government funds. The Company signs agency construction agreements with the Fuqing City Government or government institutions, which would repurchase the constructions upon project completion. The repurchase payment is based on the construction cost plus an agreed return. As of 31 December 2023, the Company had 29 infrastructure construction projects under construction or planning, with a total investment amount of RMB9.3 billion and an outstanding amount of around RMB7.0 billion. In addition, some of the infrastructure construction projects are undertaken under the management construction model, which the Company does not bear financing responsibility.

Besides, FSAO is also the primary developer of resettlement housing in Fuqing City. The Company conducts resettlement housing under two models, self-construction model and targeted purchase model. Under the self-construction model, the Company signs contract with local government and finances affordable housing projects in advance. After completion, local government will purchase those projects and then assign to resettlement residents. As of 31 December 2023, the Company has 1 resettlement housing project under construction, with a total investment of around RMB471.0 million and remaining investment amount of RMB218.0 million. Under

the targeted purchase model, the successful bidder will be responsible for the construction for resettlement housing projects. The Company will be responsible for raising the fund and the district office will make the payment to the Company for resettlement residents. As of 31 December 2023, there were 44 projects waiting for repurchase, with a total purchase amount of around RMB20.2 billion and un-paid purchase amount of RMB10.9 billion, exerting certain capital expenditure pressure.

In addition, the Company is also engaged in the development of industrial park under agency construction model, namely Fuzhou New District Fuqing Functional Zone (Yuanhong Investment Zone), and Export Processing Zone. As of 31 December 2023, the Company had finished 1 project, and hadn't neither recognized revenue nor received payment due to settlement procedure. Besides, the Company had 12 industrial park development projects under construction or planning, with total investment amount of RMB1.3 billion and uninvested amount of RMB1.2 billion.

FSAO also undertakes water supply business including water transfer and water sales business. For water transfer business, the Company undertakes environment water supply and agricultural irrigation within Fuqing City. For water sales business, the Company sells water to companies located in the range of Fuqing Min River water transfer project. As of 31 December 2023, the Company had designated water transferred capacity of 1.5 billion cubic meters per year and actual water supply of 170 million cubic meters per year. Moreover, FSAO conducts public transportation business in Fuqing City through its subsidiary Fuqing Public Transportation Co., Ltd. As of 31 December 2023, there were 738 buses and 119 bus routes under operation. The Company has continued to receive operating subsidies from the government, with RMB66.3 million in 2023.

Medium exposure to commercial activities

In addition to public activities, FSAO is also engaged in commercial businesses, mainly including trading and property leasing. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 20% of its total assets.

FSAO's trading business mainly includes the sales of agricultural products and commodities. The trading business is the Company's largest source of revenue, accounting for around 82.8% of its total revenue in 2023, but recorded a low margin profit rate of 0.6%. FSAO takes purchase based on sales model, which means the Company pays in advance to suppliers and provides repayment period of no more than 6 months to customers, causing certain capital occupation. Benefited from rising price of commodities and strong market demand, revenue from trading business grew fast over the past three years, increasing from RMB298.0 million in 2021 to RMB11.2 billion in 2023.

However, under the new guidance of local government, Finance Bureau of Fuqing City plans to transfer out the equity of Fuqing City Ronghui Venture Capital Group Co., Ltd ("FRVC") out of the Company, which is the operating entity for trading, and this event may cause sharp decrease in revenue since most of the trading business are conducted by FRVC.

FSAO has investment properties for leasing in Fuqing City, such as office buildings, warehouses and stores, which can provide stable rental income to the Company. As of 31 December 2023, the Company had a total leasable area of 429,300 square meters, with a good occupancy rate between 81% and 100%. In addition, the Company also receives property management fees through its leased properties. The property leasing business recorded a high gross profit margin of 47.8% in 2023.

Apart from trading and property leasing, the Company also has some other commercial businesses like advertising, tourism, charging, parking, etc. However, the small operating scale of these businesses limits its contribution to the Company's overall cash flow and profit.

Good track record of receiving government support

FSAO has regularly received support from the local government in the form of capital injection, government subsidies and assets transfer. From 2021 to 2023, the Company received capital injection of RMB2.9 billion from the local government to support its development. Besides, the Company also regularly receives government subsidies for public transportation business, with RMB200.7 million over the same period. Furthermore, FSAO receives assets from the government, with amount of RMB986.0 million from 2021 to 2023. Given its status as the most important entity for infrastructure construction and state-owned assets operation in Fuqing City, we believe that the local government will continue to provide support to the Company.

Fast debt growth

FSAO has fast debt growth over the past three years. The Company's total debt had increased from RMB4.0 billion at end-2021 to RMB14.8 billion at end-2023, with total capitalization ratio increasing from 17.0% to 39.3% over the same period. The increase in debt is mainly attributable to the ongoing external financing for the infrastructure construction, resettlement housing and industrial park development projects. In addition, as of 31 December 2023, the Company's short-term debt accounted for about 40.5% of total debt and cash to short-term debt ratio was 0.7x, indicating relatively high short-term debt servicing pressure. Considering its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

Weak asset liquidity

FSAO's asset liquidity is weak, which undermines its financial flexibility. The Company's assets mainly consist of inventories, receivables, and other non-current assets, all with relatively low liquidity. The inventories and other non-current assets are development costs from infrastructure construction projects, and the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 74.7% of total asset as of 31 December 2023. Fortunately, the Company has certain amount of cash reserves to support its daily operations and debt repayment. In addition, the investment properties can provide certain supplemental income to the Company. Furthermore, the Company holds equity of listed companies like BOE Technology and Industrial Bank, with total amount of RMB2.3 billion as of 31 December 2023 and accounting for about 3.7% of total assets, all of which have high liquidity but may fluctuate greatly affected by macro economy factors and industry factors.

Diversified funding channels

FSAO has good access to funding from banks and capital markets, with bank loans and bond financing accounting for 61.1% and 32.7% of the total debt respectively as of 31 December 2023. The Company has an approved line of credit from both commercial banks and policy banks, such as Haixia Bank and Agricultural Development Bank. As of 31 December 2023, it had obtained total credit facilities of RMB16.1 billion, with available credit facilities of RMB3.7 billion. The Company and its subsidiaries also have good access to bond markets and has issued multiple bond products, such as MTNs, and private corporate bonds on onshore capital market, with an average coupon rate of 3.9%. Besides, FSAO also plans to issue offshore bonds to expand its

funding channels. In addition, FSAO has low exposure to non-standard financing, which accounted for 6.1% of its total debts at end-2023.

ESG Considerations

FSAO faces environmental risks because it has undertaken infrastructure construction 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.

FSAO bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Fuqing 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.

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

Structural Consideration

FSAO's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its role as most important entity for infrastructure construction and state-owned assets operation in Fuqing City, 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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