

Credit Opinion

12 July 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Nan'an Development Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Nan'an Development Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Nan'an Development Investment Group Co., Ltd. ("NDIG" or the "Company") reflects (1) Nan'an City Government's strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Nan'an City Government's capacity to support reflects the Nan'an City's good comprehensive strength, ongoing economic and fiscal growth, and good fiscal self-sufficiency.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important policy role as the largest state-owned enterprise in Nan'an City; (2) high sustainability of infrastructure construction business; and (3) track record of receiving government support

However, the rating is constrained by the Company's (1) medium exposure to commercial business activities; (2) rapid debt growth and moderate asset liquidity; and (3) medium exposure to contingent risks.

The stable outlook on NDIG's rating reflects our expectation that Nan'an City Government's capacity to provide support will remain stable, and the Company will maintain its important public role in urban development and service operation in urban and rural areas of Nan'an City over the next 12 to 18 months.

Rating Drivers

- Important policy role as the largest state-owned enterprise in Nan'an City
- High sustainability of infrastructure construction business
- Medium exposure to commercial activities
- Track record of receiving government support
- Rapid debt growth and moderate asset liquidity
- Medium exposure to contingent risks

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Nan'an City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as material decrease in external guarantees, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Nan'an City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in importance of its policy role, material decrease in government payments, or deteriorated debt management.

Key Indicators

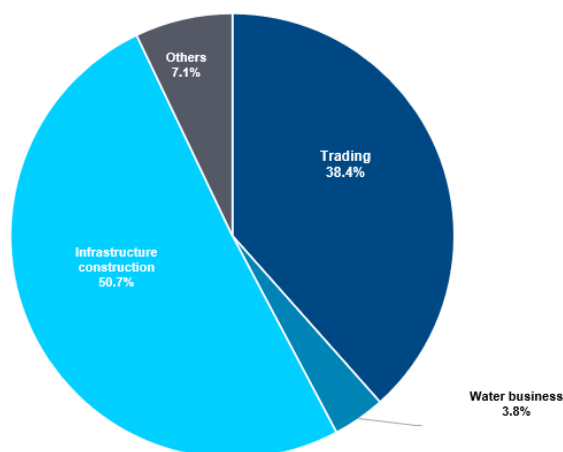
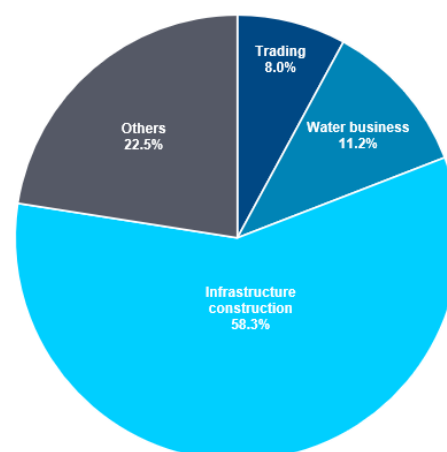
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	23.0	27.6	33.1
Total Equity (RMB billion)	11.5	12.5	13.2
Total Revenue (RMB billion)	3.7	4.5	4.4
Total Debt/Total Capital (%)	45.1	48.5	52.1

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

Source: Company data; CCXAP research

Corporate Profile

Founded in 2009 by the integration of Nan'an Energy Industry and Trade Investment Development Group Co., Ltd ("NEIT") and two grain storage and sale enterprises, NDIG is an important local infrastructure investment and financing company ("LIIFC") in Nan'an City with the largest asset size. It plays an important public role in infrastructure and resettlement housing construction, water supply, hydroelectric power generation, and grain storage. The Company also engages in some commercial activities such as trading, construction of self-operated projects, property leasing, medical sales, and financing guarantee. As of 31 March 2024, the Company was wholly owned and ultimately controlled by Nan'an City State-owned Assets Supervision and Administration Commission ("Nan'an SASAC"), with registered capital of RMB5.0 billion.

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 Nan'an City Government has a strong capacity to provide support given its good comprehensive strength, ongoing economic and fiscal 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.

Located in the southeast of Fujian Province, Quanzhou City connects Putian and Fuzhou in the north and Xiamen in the south. It is one of the "reforms and opening-up" area in China. The pillar industries in Quanzhou City include textiles, petrochemicals, machinery and equipment, building materials and home furnishing. With the ongoing industrial development, the economic strength of Quanzhou City has continuously grown. The GRP of Quanzhou City increased from RMB1,130.4 billion in 2021 to RMB1,217.2 billion in 2023, ranking 2nd among 9 prefecture-level cities in Fujian Province. Quanzhou Municipal Government recorded a public budgetary revenue of RMB58.1 billion, of which tax revenue accounted for 67.1%. However, its fiscal balance is moderate with general budgetary revenue/general budgetary expenditure ratio of 68.2%. Its debt burden is also moderate. In 2023, the local government's outstanding debt grew to RMB234.3 billion, accounting for 19.2% of GRP.

Exhibit 3. Key economic and fiscal indicators of Quanzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,130.4	1,210.3	1,217.2
GRP Growth (%)	8.1	3.5	4.8
General Budgetary Revenue (RMB billion)	50.5	52.7	58.1
General Budgetary Expenditure (RMB billion)	67.2	80.6	85.1
Local Government Debt (RMB billion)	186.6	211.3	234.3

Source: Statistic Bureau of Quanzhou City, CCXAP research

Nan'an City is a county-level city under Quanzhou City, and is an important node of the southeast coastal passage in Fujian. In 2023, Nan'an City ranks 20th by comprehensive strength among the top 100 counties

(including county-level cities) in China. Nan'an is also the largest stone production and export base in China, accounting for more than 40% of the country's stone production. Relying on its pillar industries of plumbing equipment and stone production, Nan'an City has sustained economic growth in recent years. The GRP of Nan'an City increased from RMB164.6 billion in 2022 to RMB170.7 billion in 2023, with a GRP growth rate of 6.2% YoY. The general budgetary revenue of Nan'an City also increased from RMB6.5 billion to RMB7.4 billion during the same period, with tax contribution of 69.0%. Nan'an City has a good fiscal self-sufficiency, with a fiscal balance ratio of 76.4% in 2023. In addition, Nan'an City has a manageable debt burden. In 2023, Nan'an City recorded an outstanding debt of RMB23.9 billion, accounting for 14.0% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Nan'an City

	2021FY	2022FY	2023FY
GRP (RMB billion)	153.6	164.6	170.7
GRP Growth (%)	9.8	3.7	6.2
General Budgetary Revenue (RMB billion)	5.9	6.8	7.4
General Budgetary Expenditure (RMB billion)	9.3	8.6	9.6
Local Government Debt (RMB billion)	19.7	21.3	23.9

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

Government's Willingness to Provide Support

Important policy role as the largest state-owned enterprise in Nan'an City

There are three main LIIFCs in Nan'an City, each with clear positioning in the development of the city. NDIG is the largest LIIFC by total assets in Nan'an City, mainly responsible for urban development and state-owned assets operation in Nan'an City. The Company is mandated by the local government to conduct local public activities, such as infrastructure construction, resettlement housing construction, water supply, sewage treatment, and hydroelectric power generation. Considering the Company's high strategic significance to the development of Nan'an City, we believe that it will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of infrastructure construction business, with large capital expenditure pressure

NDIG is entrusted by the local government to undertake the infrastructure and resettlement housing construction. The Company had successfully delivered a series of large-scale infrastructure construction and resettlement housing projects over the past few years. We expect that the considerable projects in the pipelines can ensure the sustainability of the infrastructure construction business, but exert large capital expenditure pressure to the Company.

The Company continues to conduct the infrastructure construction under agency construction model. However, the project repayment collection progress for the infrastructure construction and resettlement housing projects is lag behind, which may undermine the Company's efficiency of capital usage. As of 31 March 2024, the Company has completed municipal development projects of RMB4.5 billion, with unreceived payment of RMB2.7 billion. Meanwhile, it has completed 5 resettlement housing projects, with total investment of RMB6.0 billion and RMB5.9 billion to be collected. As of 31 March 2024, the Company had 11 municipal development projects under construction or planning, with a total planned investment of RMB13.5 billion and an uninvested amount of RMB12.2 billion. Furthermore, the sustainability of resettlement housing business is low as the resettlement activities in the region nearly completed, and there is no project under construction or planning.

NDIG provides water supply service in Nan'an City via its pipe networks of 740 kilometers, with a daily water

capacity of 83.6 thousand cubic meter. The Company currently assumes the function to integrate the water supply companies in urban and rural areas, and has undertaken several construction projects with costs partly funded by government subsidies and special funds. As of 31 March 2024, the Company had 5 major water supply projects under construction or planning, including tap water plant, urban and rural water integration projects, and sewage treatment projects. The Company also participates in hydroelectric power generation business in Nan'an City, with 5 hydroelectric power stations. As of 31 March 2024, the Company had 5 hydroelectric power station, with a total installed capacity of 13.2 MW. The revenue from this segment has been stable over the past few years as the electricity price remained stable.

In addition, the Company is the sole grain storage and security services provider in Nan'an City, with stable operation. Due to the public welfare nature of grain storage business, the local government provides subsidies to support its operation if the charge is lower than procurement cost.

Medium exposure to commercial activities

In addition to public activities, NDIG is also involved in various commercial activities such as domestic and international trading, construction of self-operated projects, and medical sales, lease of properties, and financing guarantee. We consider NDIG's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets.

At present, NDIG are constructing several self-operated projects, such as industrial park, commercial housing, and berth, which can generate operating income upon completion of construction, such as parking fee, property sales revenue, operating income, and loading fee. However, the Company constructs these projects mainly with self-raised funds, exerting certain capital expenditure pressure. As of 31 December 2023, the Company had 5 major self-operated projects under construction, with a total estimated investment of RMB6.7 billion and an uninvested amount of RMB4.7 billion.

NDIG also participates in domestic and international trading business under demand-driven model. Its international trading business mainly involves trading of clothing, while domestic trading business mainly involves coal and chemical products. However, the suppliers and customers of the domestic and international trading business are relatively concentrated, and the settlement period for the customers usually lasts for two to six months, causing certain capital occupation. In addition, the international trading business is subject to geopolitical risk and foreign exchange risk, which brings uncertainty to the business. Meanwhile, as the Company changed the revenue recognition to net method for international trading business, trading business was no longer the largest revenue contributor in 2023.

In addition, the Company also participates in diversified businesses such as medical sales, property leasing, and financing guarantee. Although their business scale is relatively small, they provide supplemental income to the Company.

Track record of receiving government support

As the most important state-owned enterprise in Nan'an City, NDIG has a track record of receiving payments from the Nan'an government. These payments take various forms, such as government subsidies, capital injections, and equity transfers. In 2023, the Company received the financial subsidy of RMB156.5 million and tax deduction package of RMB644.8 thousand. Overall, given its important position and contribution to regional economic development, we believe that NDIG will receive ongoing government support to support its business operations.

Rapid debt growth and moderate asset liquidity

With ongoing financing for its construction projects in recent years, NDIG demonstrates a rapid debt growth. The Company's total debt increased from RMB11.8 billion at end-2022 to RMB14.3 billion as of end-2023, while its total capitalization increased from 48.5% to 52.1% over the same period. Nevertheless, the Company's short term debt accounting for 29.3% of total debt as of end-2023, slightly decreasing from 32.7% at end-2022. We expect that, given its large future capital needs, the Company will maintain a relatively fast debt growth in the next 12 to 18 months.

Furthermore, NDIG has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories and receivables, which accounted for around 62% of its total asset as of end-2023. The inventories are mainly investment costs for infrastructure construction and resettlement housing projects, while the receivables are mainly unreceived payments from the local government or counterparties from trading business, all of which are considered low liquidity. In addition, as of 31 December 2023, the Company has a total restricted asset of RMB1.3 billion, representing 3.8% of total asset.

Good access to funding

NDIG has good access to funding as reflected by its good banking relationships and access to the onshore debt capital market. Bank loans are the main financing channel of the Company, accounting for about 50% of its total debt. As of 31 December 2023, it has sufficient standby liquidity from large domestic commercial and policy banks, with total credit facilities of RMB17.2 billion and available credit facilities of RMB8.2 billion granted by large domestic commercial and policy banks.

The Company has a track record of fund-raising activities in onshore debt capital market, including issuance of MTNs, SCPs, PPNs, and private corporate bonds. In 2023, the Company and its subsidiary NEIT have raised about RMB2.5 billion in onshore debt market. The Company has further expanded its funding channel to offshore debt capital market since 2024. The Company issued RMB650 million 4.5% offshore bond and NEIT issued RMB1,050 million 5.15% offshore bond in the first half of 2024. However, a relatively large amount of bond financing may make the Company vulnerable to the fluctuations of capital market. Additionally, the Company has low reliance on non-standard financing, accounting for less than 5% of its total debt.

Medium exposure to contingent risks

NDIG has medium exposure to contingent risks due to its relatively large amount of external guarantees. As of 31 March 2024, its external guarantee amounted to RMB4.6 billion, accounting for 34.7% of its net asset. Most of the external guarantees are provided to state-owned enterprises in Nan'an City, which have low default risk. However, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

ESG Considerations

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

The Company is also exposed to social risks as a public services provider in Nan'an City. Demographic changes, public awareness and social priorities shape government's target for NDIG, or affect the government's propensity to support the Company.

NDIG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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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