

Credit Opinion

24 December 2024

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

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Peixian Urban Construction Investment Development Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g long-term credit rating of Peixian Urban Construction Investment Development Group Co., Ltd. ("PXUC" or the "Company") reflects (1) the Pei County 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 the Pei County Government's capacity to provide support reflects its relatively good economic position among all the counties/districts in Xuzhou City for years. However, its fiscal self-sufficiency is relatively weak.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in the urban and industrial development of Pei County; (2) good track record of receiving government support; and (3) diversified funding channels.

However, the rating is constrained by the Company's (1) increased risk exposure to commercial activities; (2) increasing debt burden driven by large investment needs; and (3) moderate asset liquidity and medium level of contingent risk.

The stable outlook on PXUC's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in the urban and industrial development of Pei County over the next 12-18 months.

Rating Drivers

- Important role in the urban and industrial development of Pei County
- Increased risk exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Diversified funding channels
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Pei County Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management and reduction in the exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the Pei County 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 policy significance or material increase in external guarantees.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	52.2	61.0	66.8	70.3
Total Equity (RMB billion)	18.4	21.4	22.6	22.7
Total Revenue (RMB billion)	4.0	4.1	4.5	1.7
Total Debt/Total Capital (%)	59.8	60.2	62.7	64.4

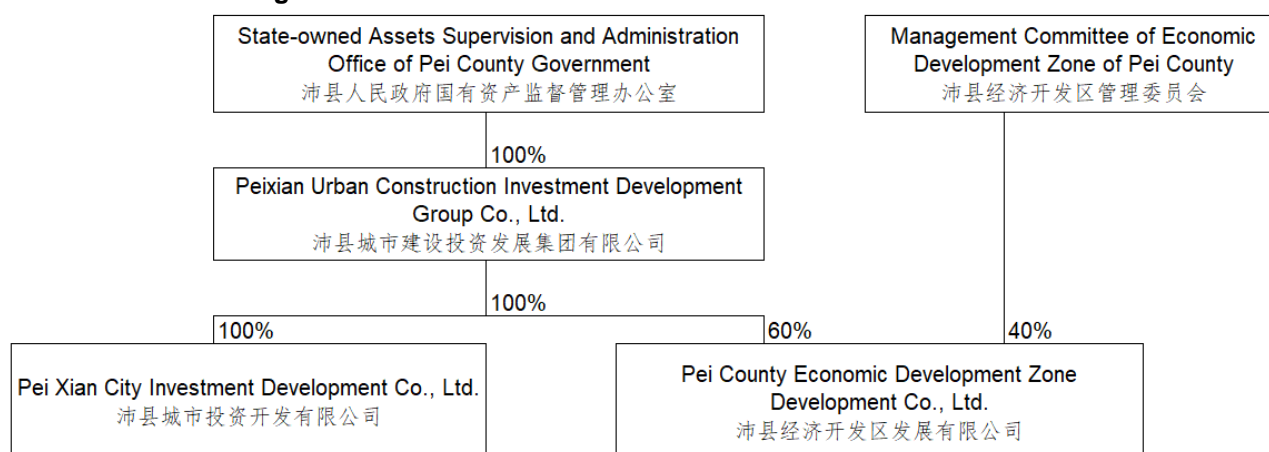
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Established in 2021, PXUC is one of the key local infrastructure investment and financing companies ("LIIFCs") in Pei County. The local government has transferred 100% shares of Pei Xian City Investment Development Co., Ltd. ("PXCD") and 60% shares of Pei County Economic Development Zone Development Co., Ltd. ("PCED") to the Company since its establishment. PXUC is positioned as an important entity for the construction of urban infrastructure and operation of urban resources. It is engaged in different businesses in Pei County through its subsidiaries, which include infrastructure construction, resettlement housing, land transfer, industrial park construction, property development, leasing, and commodity sales. As of 31 March 2024, the Company was wholly owned by the State-owned Assets Supervision and Administration Office of Pei County Government ("Pei County SASAO").

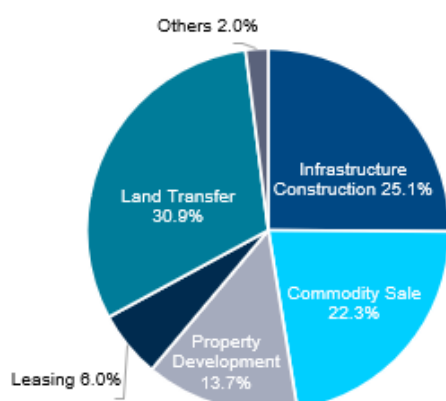
Exhibit 1. Shareholding chart as of 31 March 2024



This chart only displays the key subsidiaries of PXUC.

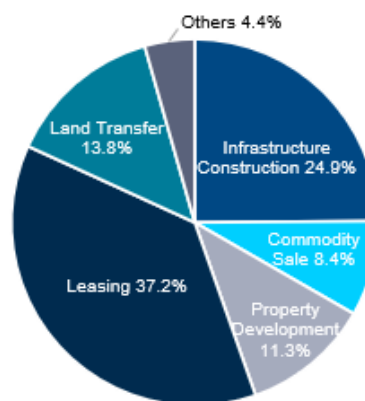
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023



Rating Considerations

Government's Capacity to Provide Support

We believe that the Pei County Government has a strong capacity to provide support to the Company, given its ongoing economic growth over the past few years. However, its fiscal balance is relatively weak.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. In the first nine months of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, up 5.7% YoY. The per capita GRP for the same period was RMB150,487, ranking first among all provinces in China.

Xuzhou City is a prefecture-level city administrated under Jiangsu Province and is in the northern part of Jiangsu Province. It is a comprehensive transportation hub, with a total area of 11,765 square kilometers. From 2021 to 2023, Xuzhou City's economic strength improved steadily with GRP increasing to RMB890.0 billion from RMB811.7 billion, ranking 6th among all prefecture-level cities in Jiangsu Province. In the first nine months of 2024, Xuzhou City realized a GRP of RMB689.9 billion, up 6.2% YoY. The general budgetary revenue reached

RMB54.6 billion in 2023. Tax revenue is a stable source of general budgetary revenue, accounting for on average over 75% over the past three years. However, its fiscal self-sufficiency remained moderate over the past three years with an average balance ratio (general budgetary revenue/general budgetary expenditure) of 51.7%. As of end-2023, Xuzhou Municipal Government's direct outstanding debt amounted to RMB163.5 billion, accounting for 18.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Xuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	811.7	845.8	890.0
GRP Growth (%)	8.7	3.2	7.1
General Budgetary Revenue (RMB billion)	53.7	51.7	54.6
General Budgetary Expenditure (RMB billion)	100.4	103.2	105.7
Local Government Debt (RMB billion)	133.2	152.2	163.5

Source: Xuzhou Municipal Government, CCXAP research

Pei County is located in the northwest of Xuzhou City, with a total area of 1,806 square kilometers. The local government actively promotes the upgrades of the three traditional pillar industries, which are coal coke electricity, metallurgy and casting, and textile industries. It also developed two featured industries, namely new energy and new aluminum material industries. Benefiting from its improved industrial structure, the GRP of Pei County increased rapidly to RMB105.2 billion in 2023, a YoY increase of 7.3%, ranking 4th in Xuzhou City. Pei County Government's fiscal strength also improved along with the economic growth. In 2023, the general public budgetary revenue amounted to RMB5.5 billion, of which tax revenue, a relatively stable income source, represented 75.1%. However, the Pei County Government's self-sufficiency remained relatively weak. In 2023, its fiscal self-sufficiency ratio was recorded at 47.8%. It relies highly on transfer payments and transfer payments from high-tier governments to balance its fiscal budget. As of end-2023, Pei County Government's outstanding debt amounted to RMB13.0 billion, accounting for about 12.3% of GRP. In the first nine months of 2024, Pei County realized a GRP of RMB76.8 billion, up 7.1% YoY.

Exhibit 5. Key economic and fiscal indicators of Pei County

	2021FY	2022FY	2023FY
GRP (RMB billion)	92.6	101.2	105.2
GRP Growth (%)	8.9	4.0	7.3
General Budgetary Revenue (RMB billion)	5.1	5.0	5.5
General Budgetary Expenditure (RMB billion)	12.8	12.9	11.4
Local Government Debt (RMB billion)	11.5	13.0	13.0

Source: Pei County Government, CCXAP research

Established in 2001, Pei County Economic Development Zone ("EDZ") was approved as a provincial-level development zone by the Jiangsu Provincial Government in 2006, with a total planned area of 70 square kilometers. Pei County EDZ has formed six core industries, including green food, modern textile, irrigation and drainage equipment, new aluminum, photovoltaic and optoelectronic, and modern service industries. Most industrial enterprises in Pei County were settled in Pei County EDZ, which has made a great contribution to the economic development of Pei County.

Government's Willingness to Provide Support

Important role in the urban and industrial development of Pei County

PXUC is one of the key LIIFCs and the largest one by total assets of the Pei County Government. As an essential entity for urban construction and operation, the Company is mainly responsible for infrastructure construction, resettlement housing construction, industrial park construction and land consolidation in the new town area and Pei County EDZ. Each LIIFC in Pei County has a clear position under the government's planning. Considering its large project reserves, we believe that the potential substitution of PXUC is relatively low and the Company is expected to maintain its importance for Pei County Government.

PXUC is responsible for infrastructure construction and resettlement housing in the new town area of Pei County and Pei County EDZ through its subsidiaries, PXCD and PCED. PCED is the sole entity for the infrastructure construction and resettlement housing in Pei County EDZ.

PXUC bears the responsibility for the infrastructure construction in Pei County, as well as the construction of related supporting facilities mainly through the agency construction model. Under the agency construction mode, the Company undertakes infrastructure construction business by signing construction agreements with the related government units and carrying out the construction work accordingly. The entrusting parties would make payments to the Company based on the actual cost plus a markup in return upon completion. As of 31 March 2024, the Company had 13 projects under construction and 7 projects under planning, with a total outstanding investment of RMB1.0 billion. The Company completed a number of infrastructure construction and resettlement projects, such as expressway construction and river improvement with an estimated repurchase value of RMB5.7 billion. As of 31 March 2024, the completed infrastructure projects realized revenue of RMB3.9 billion.

PXUC's resettlement housing business has changed from the agency construction model to a self-operation model since 2019. The Company constructs and sells the resettlement housing to households affected by demolition at prices that are often 5%-10% below market price. The stores, garages and other ancillary facilities of the projects will be sold on market-oriented basis by the Company itself. As of 31 March 2024, the Company had completed the resettlement housing projects under the agency construction model with an investment of RMB1.8 billion. The repurchase of the completed resettlement housing projects was nearly finished. At the same time, the Company had 16 projects under construction and 4 projects under planning, with a total investment of RMB24.9 billion and an outstanding investment of RMB10.0 billion. The large project reserve ensures the sustainability of the Company. In addition, Pei County still has a large demand for shantytown renovation and resettlement. According to the local government planning, other LIIFCs in Pei County will gradually withdraw from the property development business, and the Company will become the main entity for resettlement housing construction in Pei County, demonstrating the stability and sustainability of the business.

Increased risk exposure to commercial activities

Apart from infrastructure construction and resettlement housing business, PXUC also engages in other commercial activities including property development, industrial park construction, leasing, commodity sales and land transfer. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction businesses. With the continued investment in commercial activities, the Company's risk exposure increased and accounted for over 30% of its total assets, based on our assessment.

PXUC's property development business involves the development of commercial housing and office buildings that generate income through sales and leasing. The property development business may expose the Company to certain business risks and the local government seldom provides direct support for these activities. As of 31 March 2024, the Company's exposure to property development was manageable as the completed projects have been nearly sold out except the Financial Centre and just one project was under construction. The

Company's Financial Centre was completed in 2023, with a gross floor area of approximately 80 thousand square meters, of which 15 thousand square meters of the office building is for sale and the remaining portion is for lease, with an occupancy rate of approximately 90%. However, the office buildings to be sold to financial institutions such as Industrial and Commercial Bank of China and Bank of China have not yet entered into purchase agreements and received payments. At the same time, the Company would invest an outstanding amount of around RMB680 million in one property development project that was under construction. This property development project was launched for sale in 2022 and the current selling rate is low at 7%, indicating that the Company is facing certain sales pressure.

The Company's leasing income is mainly generated by the shop front and car park of resettlement housing projects, office buildings and self-constructed industrial parks. As of 31 March 2024, the Company had a total leasable area of around 1,525.1 thousand square meters. The Company's industrial parks were mainly constructed by PCED and located in Pei County EDZ. As of 31 March 2024, the Company had 5 projects under construction, with a total investment of RMB6.2 billion and an outstanding investment of RMB1.9 billion. The Company also had 3 projects under planning, with a total investment of RMB2.1 billion. As more industrial parks are completed in the future, the leasable area and rental income are expected to increase. However, considering its ongoing investments in industrial park construction, the Company may face a certain capital expenditure burden. The investment return cycle of the industrial parks will also be influenced by the progress of investment promotion and policy incentives.

PXUC's commodity sale business contributed considerable income to the Company but has a narrow profit margin. Major trading products include aluminum products, photovoltaic materials, solar cells, and building materials. The Company adopts different models according to various products. Most of the revenue mainly came from processing and sales of aluminum products which is an inward processing business to earn relatively stable processing fees. The Company adopts a demand-on-production or order sales model for other products and makes the confirmation on volume and prices with downstream customers before production. However, most of the downstream customers are private-owned enterprises. The existence of account periods of around 3 months to a year provided to the downstream customers increases the operational risks and capital pressure of the Company.

In addition, PXUC's land transfer business is significantly affected by government policies and its income is highly volatile. According to the land reserve situation and the investment plan of the local government, the reserve land will be transferred to Pei County Land Reserve Centre to obtain transfer income. In 2023, the Company achieved land transfer revenue of RMB1.4 billion. As of the end of 2023, the Company's land use rights increased to RMB5.5 billion owing to an increase in the number of land parcels auctioned for property development and commercial projects, which are booked in investment properties at fair value.

Good track record of receiving government support

In recognition of the importance of PXUC's businesses to Pei County, the Company has received comprehensive support from the government since its establishment, in terms of capital injections, cash injections, project repayments, and operating subsidies. In 2023, the Company received a total capital injection of RMB377 million from Pei County Government and the Management Committee of Pei County EDZ, substantially enhancing the capital strength of PXUC. In 2023, the Company continuously received operating subsidies from the local government of around RMB160 million. In addition, it had received project repayments of RMB5.9 billion from historical infrastructure construction and resettlement housing under agency construction mode as of 31 March 2024. With the strengthening of investment attraction policy and the continuous inbound

investment in Pei County, the Company is expected to receive payments from the local government for its settled agency construction projects. Overall, we expect PXUC to receive ongoing government support in the next 12-18 months given its important role in the development of Pei County.

Increasing debt burden and moderate asset liquidity

PXUC shows a rising debt burden owing to its expansion in the construction of public-policy projects over the past few years. From 2023 to 2024Q1, the Company's total debt increased to RMB41.0 billion from RMB38.0 billion. Its total capitalization ratio, as measured by total debt to total capital, also increased to 64.4%. At the same time, the Company had a short-term debt burden with the short-term debt accounting for 27.9% of the total debt. The cash to short-term debt ratio was around 0.4x as of 31 March 2024, indicating that its cash balance was insufficient to cover its short-term debt. As of 31 March 2024, the Company had plans to invest more than RMB15.7 billion in key projects including infrastructure construction, resettlement housing, industrial park, and property development projects in the next few years, which may further expand its financing needs. Considering the Company's reliance on external financing, we expect its debt leverage may further increase in the next 12 to 18 months.

Exhibit 6. Key public projects under construction and planning as of 31 March 2024

Project types	No. of projects	Budgeted amount	Invested amount	Outstanding amount
		(RMB million)	(RMB million)	(RMB million)
<i>Projects Under Construction</i>				
Infrastructure Construction	13	178	149	29
Resettlement Housing	16	19,503	14,884	4,619
Property Development	1	950	270	680
Industrial Park	5	6,150	4,283	1,867
<i>Project Under Planning</i>				
Infrastructure Construction	7	981	-	981
Resettlement Housing	4	5,400	-	5,400
Industrial Park	3	2,120	-	2,120
Total	49	35,282	19,586	15,696

PXUC's asset liquidity was moderate. There was a significant allocation to receivables, investment properties and inventories with limited profitability, which together accounted for over 70% of total assets as of 31 March 2024. The Company's inventories mainly include costs of construction projects and land which include some allocated land. On top of that, PXUC's accounts receivables are mainly from project settlements with local government units, which accounted for 14.3% of its total assets as of 31 March 2024. Such payments may be subject to the fiscal regime and land market conditions. The Company's other receivables are primarily comprised of amounts due from government units and local SOEs, which are substantial in scale and have uncertain payback period, forming a certain occupation of the Company's funds. As of 31 March 2024, the Company has pledged a number of assets for loans, such as cash and land in inventory, accounting for around 12.0% of its total assets, which weakened its financial flexibility.

Furthermore, there's a certain risk of recovery from the loans to some private-owned entities. PXUC's RMB340 million loan to Xuzhou Xinyu Photovoltaic Technology Co., Ltd. ("XXPT") became overdue and the Company has rearranged a new contract with XXPT, which has provided properties as collaterals. As of the end of March 2024, XXPT had repaid RMB310 million, leaving RMB30 million outstanding. As the same time, the outstanding

loans of the other receivables account provided to local private-owned enterprises totally amounted to RMB212 million.

Diversified funding channels

PXUC has diversified financing channels including capital markets, bank borrowing and non-standard financing, which could partially relieve the pressure on debt repayment and capital expenditure. Bank borrowing accounts for the majority of total debts and the Company maintains good relationships with large domestic banks such as policy banks, large state-owned banks, and large joint-stock commercial banks. As of 31 March 2024, the Company has obtained total credit facilities of around RMB54.5 billion, with an unutilized amount of around RMB8.1 billion. The Company has good access to onshore capital markets. For example, the Company and its subsidiaries, PXCD and PCED, have issued several tranches of MTN and PPN from January to November 2024, raising RMB3.8 billion in total. PXUC also had certain exposure to nonstandard financing, accounting for around 14.0% of the total debts as of 31 March 2024, mainly provided by financial leasing and trust companies.

Medium level of contingent risk

The credit profile of PXUC is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 31 March 2024, the Company had outstanding external guarantees of RMB4.5 billion, accounting for 19.6% of its net assets. Most guarantees are provided to other state-owned enterprises within Pei County. There was an RMB100 million external guarantee balance was provided to a private-owned enterprises that undertook construction projects of PXUC. The Company only provides guarantees within the scope of the project fund. The Company currently has strict control over the external guarantees and the outstanding amount has decreased compared to the previous year. The overall level of contingent risk is considered medium.

ESG Considerations

PXUC 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.

PXUC bears social risks as it implements public policy initiatives by building public infrastructure in Pei 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.

PXUC's governance considerations are also material as the Company is subject to oversight by the Pei County Government and must 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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