

Credit Opinion

27 January 2025

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

Analyst Contacts

Christy Liu +852-2860 7127

Credit Analyst

christy_liu@ccxap.com

Cherry Chau +852-2860 7128

Credit Analyst

cherry_chau@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

Luoyang Shengshi City Construction Investment Co., Ltd.

Surveillance credit rating report

CCXAP affirms Luoyang Shengshi City Construction Investment Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Luoyang Shengshi City Construction Investment Co., Ltd. ("LYSS" or the "Company") reflects Luoyang Municipal Government's (1) very strong capacity to provide support, and (2) moderate willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Luoyang Municipal Government's capacity to support reflects Luoyang City's status as the second largest city for years by GRP in Henan Province, with growing economy. Moreover, Mengjin District's GRP ranks top among all the districts or counties in Luoyang City for years.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strategic position in infrastructure construction of Mengjin District; and (2) good track record of receiving government support.

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

The stable outlook on LYSS's rating reflects our expectation that the Luoyang Municipal Government's capacity to provide support will be stable, and the Company's characteristics such as its strategic position in social and economic development of Mengjin District will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Strategic position in infrastructure construction of Mengjin District
- Good track record of receiving government support
- Large exposure to commercial activities
- Increasing debt burden and moderate asset liquidity
- Access to diversified funding channels
- Moderate level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Luoyang Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as increased regional significance or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Luoyang Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as deteriorated debt management or increased exposure to contingent liabilities.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	17.3	18.3	19.1	20.1
Total Equity (RMB billion)	9.3	9.4	9.5	9.6
Total Revenue (RMB billion)	1.0	1.1	1.0	0.7
Total Debt/Total Capital (%)	39.5	43.5	47.4	49.6

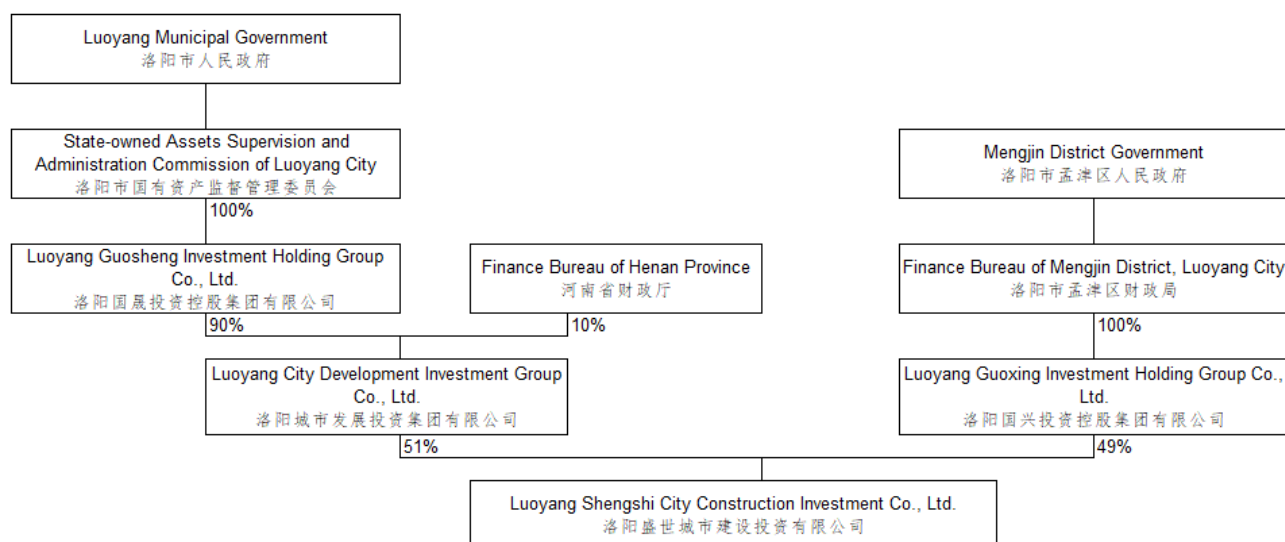
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2010, LYSS is one of the local state-owned enterprises in Luoyang City and is responsible for infrastructure construction in Mengjin District of Luoyang City. The Company has also diversified into other commercial business, such as self-operated construction projects. As of 30 September 2024, the Company was 51% owned by the Luoyang Municipal Government through Luoyang City Development Investment Group Co., Ltd. ("LYCD") and 49% owned by the Mengjin District Government through Luoyang Guoxing Investment Holding Group Co., Ltd. ("LYGX"). LYCD is one of the key subsidiaries of Luoyang Guosheng Investment Holding Group Co., Ltd, which is the largest local infrastructure investment and financing company ("LIIFC") by total assets in Luoyang City.

Exhibit 1. Shareholding chart as of 30 September 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2023

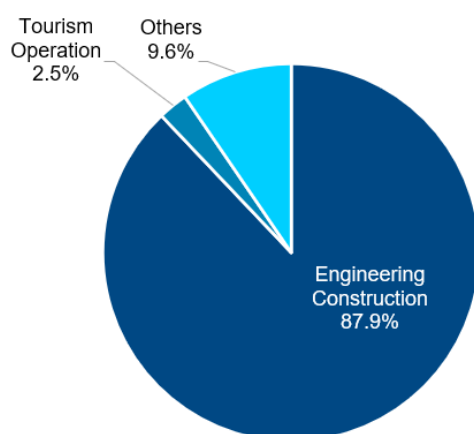
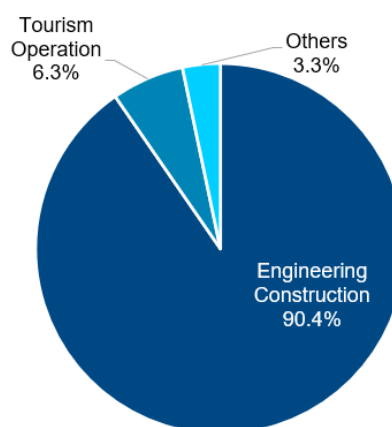


Exhibit 3. Gross Profit Structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Luoyang Municipal Government has a very strong capacity to provide support, reflects Luoyang City's status as the second largest city by GRP in Henan Province for years with growing economy.

Henan Province is a leading economic province and is recognized as one of the most developed provinces in China. It is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's GRP ranked 6th among all provinces in China in 2023 with a GRP of RMB5.9 trillion and growth rate of 4.1% year-on-year ("YoY"). According to the preliminary assessment, Henan Province achieved a GRP of RMB6.4 trillion in 2024, representing a YoY increase of 5.1%. Meanwhile, its general budgetary revenue increased by 6.2% YoY to RMB451.2 billion.

Luoyang City is located in the west of Henan Province, which is the sub-central city in the Central Plains Urban Agglomeration. It is one of the first batch of historical and cultural cities announced by the State Council, and is also an important industrial city in the central region in China. Luoyang City is an important transportation hub in the central and western regions of China with several rail networks. Supported by its location advantages, Luoyang City has developed five pillar industries, namely advanced equipment manufacturing, new materials, high-end petrochemicals, electronic information, as well as tourism industries. Luoyang City demonstrated ongoing economic growth over the past three years, with GRP ranking 2nd among 18 prefecture-level cities in Henan Province. In 2023, it reported a GRP of RMB548.2 billion, representing a YoY growth of 3.5%. In the first three quarters of 2024, Luoyang City's GRP increased by 4.3% YoY to RMB433.7 billion. The Luoyang Municipal Government's general budgetary revenue increased to RMB40.4 billion from RMB39.8 billion in 2021. Tax accounted for over 60% of its general budgetary revenue over the past three years, indicating relatively good fiscal quality. Meanwhile, Luoyang Municipal Government's fiscal sufficiency was moderate, with the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) averaging at 62.0% over the past three years. As of end-2023, its government debt balance amounted to RMB120.3 billion, accounting for 21.9% of GRP.

Exhibit 4. Key economic and fiscal indicators of Luoyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	544.7	567.5	548.2
GRP Growth (%)	4.8	3.0	3.5
General Budgetary Revenue (RMB billion)	39.8	39.8	40.4
General Budgetary Expenditure (RMB billion)	64.2	62.9	66.7
Local Government Debt (RMB billion)	63.0	77.5	120.3

Source: Luoyang Municipal Government, CCXAP research

Mengjin District is located in the northwest region of Henan Province, which is under the jurisdiction of Luoyang City. After years of development, Mengjin District has formed three pillar industries, including high-end petrochemicals, advanced equipment manufacturing, and special new materials. It also developed four major industrial parks, namely Luoyang Circular Economic Park, Luobei Modern Service Industry Cluster, Xincheng Science and Technology Park, and Dry Port Modern Logistics Park. In 2023, Mengjin District's GRP amounted to RMB50.4 billion, ranking 4th among all the districts or counties in Luoyang City. During the first nine months of 2024, Mengjin District achieved a GRP of RMB42.8 billion, with a YoY growth rate of 7.1%, ranking 1st among all the districts or counties in Luoyang City in terms of the growth rate. In 2023, its general budgetary revenue increased to RMB4.2 billion, of which tax revenue accounted for 60.0% of its general budgetary revenue. In addition, Mengjin District Government has good self-sufficiency, with its fiscal balance ratio averaging at 85.8% over the past three years. As of 31 December 2023, the outstanding debt of Mengjin District Government was RMB5.3 billion, accounting for 10.6% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Mengjin District

	2021FY	2022FY	2023FY
GRP (RMB billion)	55.4	54.2	50.4
GRP Growth (%)	4.8	-0.6	0.6
General Budgetary Revenue (RMB billion)	3.2	4.2	4.2
General Budgetary Expenditure (RMB billion)	4.5	4.3	4.7
Local Government Debt (RMB billion)	3.7	4.3	5.3

Source: Mengjin District Government, CCXAP research

Government's Willingness to Provide Support

Strategic position in infrastructure construction of Mengjin District

LYSS is one of the most important LIIFC in Mengjin District in local infrastructure construction projects, which are crucial to local social and economic development that benefits the general public and local employment. In November 2023, the Finance Bureau of Mengjin District transferred all its shareholding of the Company to LYGX, which was a newly-established LIIFC in Mengjin District. LYGX is expected to become an important comprehensive state-owned capital investment and operation entity in Mengjin District. After the shareholding transfer, the Company is still the key LIIFC in Mengjin District, responsible for local infrastructure construction projects. We believe that the Company will maintain its important position in the public policy projects in Mengjin District and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company undertakes infrastructure construction through agency construction model. LYSS signed construction agreements with the entrusting parties and will receive payments based on the total cost plus a certain markup in return during the construction progress or after the project is completed. As of 30 June 2024, the Company had completed 6 key infrastructure construction projects, with a total investment of RMB1.9 billion, such as provincial-level highway construction and sewage treatment projects, benefiting the social welfare of the citizens. As of the same date, there were 5 projects under construction, with a total investment amount of RMB2.7 billion and an uninvested amount of RMB65.0 million. Meanwhile, the Company had a project under planning with a planned investment of RMB866.0 million. The sustainability of the Company's business is affected by the relatively small project reserve.

Good track record of receiving government support

LYSS has a good track record of receiving support from the local government in the form of equity transfer, operating subsidies, and project payments to support its investments and the operation of its businesses. For instance, the local government transferred shares of some state-owned enterprises in Mengjin District to the Company, such as Luoyang Shengyang Thermal Power Co., Ltd. and Luoyang Lulian Road Construction Engineering Co., Ltd. From 2023 to 2024Q3, the Company continuously received subsidies from the local government with a total amount of RMB680.6 million to support its business operations and construction projects. In addition, LYSS received ongoing project repayments from the local government.

Apart from that, the Company received support from its controlling shareholders LYCD and LYGX, including cash injection and providing guarantees for its financing activities. For instance, LYCD and LYGX increased their capital investments in the Company by RMB205.5 million in 2023, increasing the Company's paid-in capital to RMB725.5 million at end-2023. Considering its strategic role in social and economic development of Mengjin District, we expect the local government will continue to provide support to the Company.

Large exposure to commercial activities

LYSS participates in different commercial activities, mainly including self-operated construction. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its public-policy businesses. The Company had large-scale of self-operated projects under construction and planning, which may increase its future investment pressure. We estimate the Company's risk exposure to commercial business is relatively large.

Apart from public policy projects, LYSS has some self-operated construction projects. The Company achieves fund balancing through operating revenue of the projects, such as rental income, parking fees, and advertising

fees. However, self-operated construction projects may undertake higher business risk. As of 30 June 2024, there were 5 key projects under construction, with a total investment amount of RMB6.0 billion and uninvested amount of RMB2.9 billion. The largest project in terms of the investment size was petrochemical ethylene project, which is crucial to the development of high-end petrochemical industry in Luoyang City. The Company is expected to balance the investment through operating revenues, such as energy supply income. However, the investment recovery cycle is long, making it more difficult to achieve fund balancing in short period of time. The relatively large scale of investment will bring more pressure on the capital expenditure of the Company.

With the equity transfer of Mengjin Hanwei Tourism Resources Development Group Co., Ltd. to LYGX in November 2023, the Company did not generate revenue from tourism operation business in 2024. However, the Company had a tourism project under planning, namely the Luobei Rural Revitalization Demonstration Development Project in Luoyang City, with an estimated total investment amount of RMB1.4 billion. The Company is expected to achieve fund balancing from operating revenue such as rental incomes from industrial parks and hostels, tourist tickets, and product sales.

Increasing debt burden and moderate asset liquidity

Due to the continuous investment in infrastructure construction and self-operated projects, LYSS's total debt has been growing over the past three years. As of 30 September 2024, LYSS's total debt increased to RMB9.5 billion from RMB7.3 billion as of end-2022. The Company has maintained moderate debt leverage. Its total capitalization ratio, as measured by total debt to total capital, was recorded at 49.6% as of the same date. Meanwhile, the Company has a certain amount of short-term debt, which amounted to RMB3.1 billion as of 30 September 2024, accounting for 32.3% of total debt. At the same time, its cash to short-term debt ratio was only 0.1x, which could not fully cover the short-term debt. As of 30 September 2024, the Company was planning to invest around RMB2.0 billion in 2025. Considering the large number of uninvested amounts of construction projects, we estimate the Company would continue to rely on external financing such as bank loans and bonds issuance to support its business, and its total debt would further increase over the next 12-18 months.

LYSS's asset liquidity was moderate. As of 30 September 2024, the Company's inventories, receivables account, construction in progress, and other non-current assets accounted for 71.2% of the total assets. The Company's inventories and construction in progress mainly include the cost of construction works, while other receivables are mainly receivables from the local government, which are considered low liquidity. Furthermore, there is a risk of recovery from private-owned enterprises. The Company's other receivables account contains loans provided to a private-owned enterprise, including loan receivables of RMB181.6 million to Wuhan Tongxin Real Estate Co., Ltd. ("Wuhan Tongxin") as of 30 September 2024, which has been listed as dishonest judgment debtor. The Company has obtained two pieces of land from Wuhan Tongxin as collateral.

Access to diversified funding channels

LYSS has access to funding channels such as bank loans, onshore bonds, and non-standard financing. The Company maintains long-term and close relationships with domestic banks, such as Agricultural Development Bank of China, Industrial and Commercial Bank of China Limited, and Zhongyuan Bank Co., Ltd. As of 30 September 2024, the Company had total bank facilities of RMB6.4 billion, with an unutilized portion of RMB2.0 billion. In addition, the Company's controlling shareholder, LYCD, also provided guarantees for its financing activities. The Company also has a track record for fund-raising activities in capital market. For instance, the Company issued 3 tranches of corporate bond in the domestic debt market in 2024, raising RMB1.4 billion. In addition, LYSS expanded its fund-raising channel to offshore debt capital market in 2024. The Company issued offshore bonds to raise RMB1.5 billion from in 2024. Meanwhile, the Company decreased its exposure to non-

standard financing, mainly from trust companies, accounting for around 11.3% of total debt as of 30 September 2024.

Moderate level of contingent risk

The credit profile of LYSS is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2024, the Company's external guarantees amounted to RMB1.5 billion, accounting for 16.1% of its net assets, most of which were provided to local SOEs. We believe that the credit risk of the guarantee is moderately controllable, considering the government's support to local SOEs. However, the Company has provided external guarantees to two private-owned enterprises, with a total amount of RMB173 million, accounting for 11.2% of the total external guarantees, which may expose the Company to higher contingent risks.

ESG Considerations

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

LYSS bears social risks as it implements public policy initiatives by building public infrastructure in Mengjin District. 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.

LYSS's governance considerations are also material as the Company is subject to oversight by Luoyang 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 \(July 2022\)](#).

Copyright © 2025 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