

CCXAP assigns long-term credit rating of BBB_g+ to Quzhou Qutong Development Group Co., Ltd., with stable outlook

Hong Kong, 28 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a long-term credit rating of BBB_g+ to Quzhou Qutong Development Group Co., Ltd. (“QQDG” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Quzhou Qutong Development Group Co., Ltd. (“QQDG” or the “Company”) reflects (1) Quzhou Municipal Government’s very 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 Quzhou Municipal Government’s capacity to provide support reflects Quzhou City’s status as a prefecture-level city in Zhejiang Province, with relatively fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic role as the transportation infrastructure construction entity in Quzhou City; (2) good access to funding; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) moderate debt management and moderate asset liquidity.

Corporate Profile

Founded in 2002, QQDG, formerly known as Quzhou Communications Investment Group Co., Ltd., is an important local infrastructure investment and financing company (“LIIFC”) for major transportation infrastructure projects in Quzhou City. It is primarily engaged in transportation construction and operation, as well as power generation. The Company also undertakes commercial activities such as sales of construction materials and property development. As of 30 September 2022, the Company was wholly owned by Quzhou State-owned Assets Operation Co., Ltd. (“QSAO”), which directly held 51% of the Company’s stakes and indirectly held the remaining 49% through its subsidiary Quzhou Holding Group Co., Ltd. Its ultimate controlling owner is the State-owned Assets Supervision and Administration Commission of Quzhou Municipal Government (“Quzhou SASAC”).

Rating Rationale

Credit Strengths

Important strategic role as the transportation infrastructure construction entity in Quzhou City. Since its establishment, the Company has played an important role in the implementation of infrastructure construction and urban development policies in Quzhou City, and has successfully completed major provincial construction projects. Given its important strategic market position, we believe that the Company is unlikely to be replaced in the foreseeable future.

Good access to funding. We consider QQDG's access to funding to be good, given its strong banking relationships and access to the bond market. As of 30 September 2022, banks loans and bonds accounted for about 88% of the Company's total debt, while non-standard financing and shareholder loans accounted for the remaining 12%.

Good track record of receiving government payments. QQDG has received continuous support from the local government, including capital injections, asset transfers, project grants, and financial subsidies. Overall, given the Company's important position and its contribution to regional economic development, we believe QQDG will continue to receive support from the government.

Credit Challenges

Medium exposure to commercial activities. QQDG is also engaged in commercial activities such as self-operated project construction, road maintenance, commodity trading, building materials sales, and property development businesses. Although the Company's commercial activities account for a relatively high proportion, accounting for about 30% of its total assets, we consider the commercial business risks to be manageable, given that most of the commercial activities has low business risks and the local government has provided financial support to some of the self-operated projects.

Moderate debt management and moderate asset liquidity. QQDG has moderate debt management, as reflected by its rapid debt growth and modest debt structure. Its total debt increased from RMB3.8 billion at end-2019 to RMB13.3 billion at end-2022Q3. Furthermore, the Company's asset liquidity is moderate as its total assets mainly consist of assets with low liquidity.

Medium exposure to contingent risks. LSAM has medium exposure to contingent risks due to its relatively large amount of external guarantees. As of 30 September 2022, its external guarantee amount was RMB2.6 billion, accounting for 19.3% of its net asset. All of the external guarantees are provided to state-owned enterprises in Longyou County.

Rating Outlook

The stable outlook on QQDG's rating reflects our expectation that Quzhou Municipal Government's capacity to provide support will remain stable, and the Company will maintain its important strategic role in transportation infrastructure construction in Quzhou City over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Quzhou Municipal Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as strengthened market position, material reduction in commercial business exposure, or improved debt management.

What could downgrade the rating?



The rating could be downgraded if (1) Quzhou Municipal Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as weakened market position, material decrease in government payments, or deteriorated debt management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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