

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Sanming City Construction and Development Group Co., Ltd., with stable outlook.**

Hong Kong, 8 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB<sub>g</sub>+ to Sanming City Construction and Development Group Co., Ltd. (“SCCD” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of Sanming City Construction and Development Group Co., Ltd. (“SCCD” or the “Company”) reflects (1) Sanming 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 Sanming Municipal Government’s capacity to provide support is reflected by its comprehensive industrial system, with ongoing economic growth and moderate fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong position in municipal infrastructure construction of Sanming City; (2) high business sustainability; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate debt growth and relatively high debt leverage; and (3) moderate access to funding, with high proportion of non-standard financing.

### **Corporate Profile**

Established in 2019, SCCD is an important local infrastructure investment and financing company (“LIIFC”) in Sanming City, mainly responsible for municipal infrastructure construction and affordable housing construction. The Company is also engaged in property development, commodity sales, as well as hotel and catering businesses. As of 30 June 2023, State-owned Assets Supervision and Administration Commission of the Sanming Municipal Government (“Sanming SASAC”) held 100% equity interests of SCCD, and was its ultimate controlling shareholder.

### **Rating Rationale**

#### **Credit Strengths**

**Strong position in municipal infrastructure construction of Sanming City.** There are two key LIIFCs in Sanming City, Sanming Investment Development Group Co., Ltd. (“SIDG”) and SCCD, each with clear positioning in the development of Sanming City. As the important infrastructure construction entity in Sanming City, SCCD mainly is responsible for the municipal infrastructure and affordable housing construction of Sanming City, with strong market business position. The Company has undertaken and completed a large number of construction projects in Sanming City, and we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

**High sustainability of infrastructure construction business.** SCCD is entrusted by the local government to undertake the infrastructure and resettlement housing construction. SCCD has abundant construction projects in the pipeline, which can ensure the sustainability of its public policy businesses, but exert certain capital expenditure pressure on the Company. Besides, the progress of project repayment from the local government is slow, causing capital occupation to the Company.

**Good track record of receiving government support.** As the key infrastructure construction entity in Sanming City, SCCD has a good track record of government support, such as subsidies, special bond funds, and asset injections. In light of the Company's important position, we expect the Company to receive ongoing support from the local government in the foreseeable future.

### Credit Challenges

**Medium exposure to commercial activities.** SCCD is also engaged in commercial businesses, mainly including property development and commodities sales businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for 15% to 20% of its total assets.

**Moderate debt growth and relatively high debt leverage.** SCCD's total debt has increased moderately in the past three years due to ongoing financing needs. Given the large number of projects, we expect the Company's debt burden will continue to increase in the foreseeable future. Furthermore, SCCD's asset liquidity is moderate, which may undermine its financing flexibility. Receivables are mainly unreceived projects payments from the local government, while inventories are mainly development costs for its construction projects, all of which are considered low liquidity.

**Moderate access to funding, with high proportion of non-standard financing.** SCCD has moderate access to funding. The Company's standby liquidity is modest, with available credit facilities of RMB2.8 billion at mid-2023. It has access to onshore bond market. From January 2020 to June 2023, the Company had raised RMB6.9 billion from the onshore bond market via issuance with coupon rate ranging from 3.2% to 5.5%. However, the scale of non-standard borrowings is large. As of 30 June 2023, the non-standard debts accounted for more than 25% of the total debt, with costs ranging from 5.8% to 7.8%. The Company plans to broaden its financing channels by issuing offshore bonds.

### Rating Outlook

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

#### What could upgrade the rating?

The rating could be upgraded if (1) Sanming 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) Sanming 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.

#### **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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