

CCXAP assigns first-time long-term credit rating of BBB_g to Pingyang County Urban Construction Investment Co., Ltd., with stable outlook

Hong Kong, 15 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g to Pingyang County Urban Construction Investment Co., Ltd. (“PUCI” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of PUCI reflects (1) Pingyang County Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position in the comprehensive development of Pingyang County; (2) high sustainability of public policy businesses; and (3) good access to funding. However, the Company’s rating is constrained by its (1) moderate exposure to commercial activities with manageable commercial risks; (2) fast debt growth and moderate asset liquidity; and (3) high exposure to external guarantees, with manageable contingent liability risk.

Corporate Profile

Founded in 2013, PUCI is the key local infrastructure investment and financing company (“LIIFC”) in Pingyang County, Wenzhou City. The Company mainly engages in land development, infrastructure construction, and resettlement housing in Pingyang County. It is also engaged in commercial businesses such as property leasing and trading. As of 30 June 2023, Pingyang State-owned Assets Development Co., Ltd directly held 100% of the Company’s shares and Pingyang County State-owned Assets Supervision and Administration Office was its ultimate controller.

Rating Rationale

Credit Strengths

Important position in the comprehensive development of Pingyang County. PUCI is responsible for land development, infrastructure construction and resettlement housing in Pingyang County, while other LIIFCs are responsible for road construction, water and gas sales, and other public businesses. The Company has completed a large number of land development, infrastructure construction and resettlement housing projects in Pingyang County, mainly the Chengdong New Area and Aojiang Area, making great contributions to the economic and social development of the region. Considering the PUCI’s key position in the comprehensive development of Pingyang County, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses. PUCI has participated in land development, infrastructure construction, and resettlement housing through the Company itself and its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure to the Company. Entrusted by the local government, PUCI undertakes infrastructure

construction projects by self-raised funds under agency construction model. Pursuant to the local resettlement plan, PUCI has also undertaken a number of resettlement housing projects in Pingyang County, which will be sold to the relocation households after completion within the price range set by the local government.

Good access to funding. PUCI's good access to funding from bank borrowings and bond market. The Company has good relationship with multiple commercial banks and policy banks in China, such as Agricultural Development Bank of China and Industrial and Commercial Bank of China, and has obtained sufficient credit facilities. Besides, PUCI has issued PPNs and private placement bonds in the onshore bond market, raising RMB5.3 billion in total, with coupon rate ranging between 3.8% and 5.1%. In addition, PUCI has low exposure to non-standard financing, which accounted for less than 6% of its total debts.

Credit Challenges

Moderate exposure to commercial activities with manageable commercial risks. PUCI's exposure to commercial activities is moderate as the commercial business-related assets accounted for less than 20% of total asset as of 30 June 2023. The commercial businesses include property leasing and trading. We believe that the commercial risks are manageable as the property leasing can provide stable rental income to the Company, and the income scale of the trading business is still limited. PUCI owns high-quality standard industrial plants in the region, which are leased to companies operating in Pingyang County, providing stable rental income.

Fast debt growth and moderate asset liquidity. With the increasing financing demand for the infrastructure construction projects, PUCI has a fast debt growth over the past three years. The Company's total debt increased from RMB17.4 billion at end-2020 to RMB30.1 billion at mid-2023, with total capitalization ratio of 65.2%. With pipeline of land development, infrastructure construction and resettlement housing projects under construction, the Company will continue to rely on external financing to meet its future capital expenditure needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months. PUCI's asset liquidity is moderate, which may undermine its financial flexibility.

High exposure to external guarantees, with manageable contingent liability risk. PUCI has high exposure to external guarantees. As of 30 June 2023, PUCI's external guarantees amounted to RMB7.8 billion, accounting for 48.6% of its net assets. Most of external guarantees are provided to the state-owned enterprises located in Pingyang County, which have lower credit risks. We believe the Company's contingent liability risk is manageable.

Rating Outlook

The stable outlook on PUCI's rating reflects our expectation that the Company will maintain its key position in Pingyang County. We also expect that the Company will continue to receive ongoing government support.

What could upgrade the rating?

The rating could be upgraded if (1) local 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 materially decrease in its exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) local 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 decrease in its importance, materially 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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