

CCXAP affirms Chuxiong State-owned Capital Investment Group Co., Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Hong Kong, 19 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Chuxiong State-owned Capital Investment Group Co., Ltd. (“CSCI” or the “Company”) at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of CSCI reflects Chuxiong Prefecture Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Chuxiong Prefecture Government’s capacity to provide support reflects that Chuxiong Yi Autonomous Prefecture (“Chuxiong Prefecture”) ranks 5th among 16 municipal cities and autonomous prefectures in Yunnan Province by gross regional product (“GRP”) in 2022, with a good GRP growth and economic fundamentals.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic position in the infrastructure and industrial development in Chuxiong Prefecture; (2) solid track record of receiving government payments; and (3) access to funding mainly from banks. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate asset liquidity; and (3) medium credit risks from lending business and contingent risks from external guarantees.

Corporate Profile

Formerly known as Chuxiong Industrial Investment Development Co., Ltd., CSCI was founded in 2016 and is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Chuxiong Prefecture. It is primarily responsible for infrastructure construction and public utility services, such as infrastructure projects and rural road construction, as well as water supply and sewage treatment services. Apart from its main business, the Company is also engaged in commercial activities, such as industrial park development, self-operating projects, property leasing, real estate development, engineering construction and material trading. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the Chuxiong Prefecture Government.

Rating Rationale

Credit Strengths

Important strategic position in the infrastructure and industrial development in Chuxiong Prefecture. The Company has a clear positioning to promote industrial development and complete infrastructure construction in Chuxiong Prefecture. As the most important infrastructure construction company in Chuxiong Prefecture, CSCI plays an obvious strategic role in regional economic and social development by undertaking infrastructure construction projects and providing public utility services. We believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. CSCI has a proven track record of receiving ongoing government support from Chuxiong Prefecture Government and Chuxiong Prefecture State-owned Asset and Supervision and Administration Commission (“Chuxiong SASAC”), including government subsidies, capital injections, asset injections and equity transfers. Considering CSCI’s important strategic role, we expect the Company will continue to receive support from Chuxiong Prefecture Government and Chuxiong SASAC in the future.

Access to funding mainly from banks. The Company’s large investment needs could be partly supported by its access to funding. As of 30 June 2023, around 80.9% of the Company’s debt financing was provided by domestic banks, with an available credit facility of RMB5.0 billion.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, CSCI is also involved in various commercial activities such as self-operating projects, property leasing, real estate development, engineering construction, material trading and equity investment. We consider CSCI’s commercial business exposure to be moderate, as its market-driven businesses account for around 30% of its total assets.

Moderate asset liquidity. CSCI has moderate asset liquidity. The Company’s total assets are mainly inventories and other receivables, which accounted for 55.0% of total assets as of 30 June 2023. Inventories were mainly investment costs of infrastructure construction and property development projects, while other receivables were mainly unreceived payments from the government and other state-owned enterprises for infrastructure construction projects, all of which are considered as low liquidity.

Credit risks from lending business and contingent risks from external guarantees. As of 30 June 2023, CSCI’s external guarantee amount was RMB4.1 billion, accounting for 17.6% of its net assets. Most of the external guarantees were provided to local state-owned enterprises in Chuxiong Prefecture. For the poverty alleviation business, the Company borrowed from national policy banks and lent to the local counties under Chuxiong Prefecture. Furthermore, the counterparties of the entrusted loan business include local SMEs, if the counterparties fail to repay on time, the Company might face credit contagion risk.

Rating Outlook

The stable outlook on CSCI’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its strategic role as the key infrastructure construction entity in Chuxiong Prefecture.

What could upgrade the rating?

The rating could be upgraded if (1) the local government’s capacity to provide support strengthens; and (2) changes in company’s characteristics enhance the local government’s willingness to provide support, such as decreased exposure to commercial activities or improved assets liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics weaken the local government's willingness to provide support, such as reduced strategic significance or increased exposure to commercial activities.

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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Olivia Feng

Senior Credit Analyst

+852-2860 7133

olivia_feng@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com



Client Services: +852-2860 7111



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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