

CCXAP assigns first time long-term credit rating of A₉+ to Wuxi Urban Construction Development Group Co., Ltd., with stable outlook.

Hong Kong, 22 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A₉+ to Wuxi Urban Construction Development Group Co., Ltd. (“WXUC” or the “Company”), with stable outlook.

The A₉+ long-term credit rating of WXUC reflects the Wuxi Municipal Government’s very strong capacity to provide support, and the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Wuxi City’s status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita gross regional product (“GRP”) in Jiangsu Province.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) dominant role in providing essential public policy services in Wuxi City, including public infrastructure projects, affordable housing and urban renewal projects; (2) solid track record of government payments; and (3) strong access to diversified funding. However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities, especially in financial services; (2) moderate asset liquidity; and (3) medium level of contingent risk.

Corporate Profile

Founded in 2008, WXUC is the essential local urban and rural construction entity under the control of the Wuxi Municipal Government. As of 30 June 2023, WXUC was directly and wholly owned by the State-owned Assets Supervision and Administration Commission of Wuxi Municipal People’s Government (“Wuxi SASAC”). In January 2022, Wuxi Taihu New City Development Group Co., Ltd. (“WXTH”) was excluded from the scope of the Company’s consolidated statements as entrusted voting rights from WXCD were reduced. At the same time, the local government transferred 49% stake of Wuxi Construction Development Investment Co., Ltd. (“WXCD”) and 26% stake of Wuxi Environmental Protection Group Co., Ltd. (“WXEP”) to the Company. WXUC’s position as a comprehensive urban developer and operator remains unchanged. It is mainly responsible for the urban renewal and rural revitalization projects and is the sole affordable housing constructor in Wuxi City. Additionally, the Company is also engaged in commercial activities including property management, housing guarantees, commercial factoring and supply chain services business.

Rating Rationale

Credit Strengths

Dominant role in urban and rural projects and affordable housing construction in Wuxi City. WXUC is a comprehensive urban and rural developer and operator, mainly responsible for urban and rural construction projects, affordable housing construction and other functions in the city. Its strategic planning and development have been aligned with the local



government's economic and social policies. Mandated by the local government, WXUC is the sole prefectural-level entity that carries out affordable housing construction projects in Wuxi City. WXUC conducts urban construction in Wuxi City mainly through agent management model such major projects as the subsidiary hospital of Jiangnan University, the Wuxi Fifth People's Hospital, and the Wuxi campus of Southeast University.

Solid track record of receiving government payments. WXUC has a track record of receiving government cash payments in the form of payment for urban construction projects, government funds allocation, operating subsidies and capital injections. Besides the government cash support, WXUC also owns a portfolio of large-scale state-owned enterprises that generated relatively large investment income in 2022. Given WXUC's relatively large project under construction, the Company is expected to receive ongoing government payment under the agent construction management model.

Strong access to diversified funding. WXUC has strong banking relationships and good access to high-quality debt funding. Its primary funding sources are major Chinese banks and commercial banks, and the public bond market. As an essential urban construction entity in Wuxi City, the Company is expected to benefit from the good financial environment of the city, which is one of the well-developed cities in China with strong economic strengths.

Credit Challenges

Medium risk exposure to commercial activities. WXUC has gradually penetrated into different types of commercial activities in recent years such as housing guarantees, commercial factoring and supply chain services business in addition to its construction management and affordable housing business, which are complementary to its primary policy function. However, these businesses would pose the Company to medium business risks that require prudent risk control.

Moderate asset liquidity. The reorganization of WXTH along with the transfer of WXCD and WXEP led to material effects on WXUC's asset structure in 2022. At the end of 2022, WXUC's total assets decreased to RMB67.1 billion. Additionally, WXUC's financial leverage improved after reorganization. Its asset liquidity remained moderate with inventories and other receivables accounting for 34.5% of total assets as of 30 September 2023. Inventories were mainly construction costs of projects with long settlement periods.

Medium level of contingent risk. WXUC has moderate contingent risks because external guarantees accounted for 21.3% of its total reported equity as of 30 June 2023. All these guarantees are provided to other SOEs in Wuxi City. We expect the Wuxi Municipal Government to have sufficient fiscal and financial resources and to step in to coordinate if any SOEs with debt guaranteed by the Company are in financial distress.

Rating Outlook

The stable outlook on WXUC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company's characteristics such as

dominant role in providing essential public services in Wuxi City, are expected to remain stable over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability 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 a decrease in risk exposure to commercial activities and mitigated contingent risk.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance or deteriorated financing ability.

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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