

## **CCXAP affirms Nantong Coastal Development Co., Ltd.'s long-term credit rating at A<sub>g</sub>, with stable outlook.**

Hong Kong, 22 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Nantong Coastal Development Co., Ltd. (“NTCD” or the “Company”) at A<sub>g</sub>, with stable outlook.

The A<sub>g</sub> long-term credit rating of NTCD reflects the Nantong Municipal Government’s very strong capacity to provide support and its very 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 Nantong City’s status as the fourth largest city by gross regional product (“GRP”) in Jiangsu Province with good economic fundamentals and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership and ultimate control by the Nantong Municipal Government; (2) strong strategic position in local infrastructure construction; (3) solid track record of receiving government payments; and (4) good access to funding. However, the rating is constrained by the Company’s (1) large exposure to commercial activities; and (2) fast-growing debt from large development pipelines.

### **Corporate Profile**

Founded in 2012, NTCD is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Nantong City. It undertakes major infrastructure projects in Nantong City, particularly in Tongzhou Bay and Pingchao New Town. NTCD also positions as an all-around city operator in Nantong City, with business coverage from infrastructure construction, education and tourism to real estate development, financial services and trade businesses. NTCD is wholly owned by the State-owned Assets Supervision and Administration Commission of Nantong Municipal Government (“Nantong SASAC”), with paid-in capital of RMB5.6 billion as of 30 June 2023.

### **Rating Rationale**

#### **Credit Strengths**

**Strong strategic position in the infrastructure construction of Nantong City.** NTCD has a clear functional positioning in the first-class state-owned enterprises in Nantong City. Nantong City government has restructured its state-owned assets and clearly stated the functions of NTCD. Since then, NTCD has become an all-around city operator in Nantong City, with a wide range of business coverage. It undertakes the major infrastructure construction and urban service operation of Nantong City, particularly in Tongzhou Bay and Pingchao New Town. NTCD is the second-largest LIIFC that is directly owned by the Nantong Municipal Government in terms of total assets as of 30 June 2023.



**Major infrastructure construction entity in Nantong City, especially for Tongzhou Bay and Pingchao New Town.** NTCD is commissioned by the local government to be the key urban infrastructure constructor in Tongzhou Bay and a key developer in Pingchao New Town. In addition, NTCD has a self-operated project under construction, the Railway Connection Line Project of Nantong Port Yangkou Port Area to Lusi Port Area (“Yanglu Railway”) with a total planned investment of RMB9.9 billion. This project is undertaken by its subsidiary and the Company is mainly responsible for the financing, and construction, while the operation and management are expected to be entrusted to China Railway Shanghai Bureau Group Co., Ltd.

**Solid track record of receiving government payments.** NTCD has received ongoing support from the Nantong Municipal Government including capital injections, project payments and financial subsidies. The Nantong Municipal Government also provided strong policy support for the development of Tongzhou Bay and is expected to support NTCD’s project funding.

**Good access to diversified funding.** NTCD has access to multiple financing channels, including bank loans and bond issuances. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. The Company also has a good track record of fund-raising activities in the capital market and has issued general corporate bonds, MTNs and private placement bonds in the past three years.

#### Credit Challenges

**Large exposure to commercial activities.** Apart from public services, NTCD has also been engaged in diversified commercial activities covering real estate development, property leasing, trading business, financial service and equity investment. Although the commercial activities can bring in supplemental income, they may also pose higher operating and business risks to the Company compared with its infrastructure businesses.

**Fast-growing debt from large development pipelines.** NTCD has a high debt leverage owing to its debt-driven business expansion over the past few years. Projects include roads, schools, coastal ecological districts, fire station and water supply pipeline construction, and are expected to be funded mainly through external financing over the next 12-18 months. Given its need for external financing, we expect the Company’s debt leverage will remain at a relatively high level in the next 12 to 18 months.

**Contingent liability risks from external guarantee.** The Company’s exposure to external guarantees is manageable. Most of the external debt guarantees were provided to local state-owned companies and approximately RMB135.0 million was provided to a local private-owned company, namely Nantong Sumin Renewable Energy Technology Co., Ltd. (“NSRET”). NSRET is one of the investments of NTCD, which has been listed as a judgment defaulter.

#### Rating Outlook

The stable outlook on NTCD’s rating reflects our expectation that the Nantong Municipal Government’s capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Nantong City.



### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in the exposure to commercial activities.

### **What could downgrade the rating?**

The rating could be downgraded if (1) the 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 reduced regional significance or weakened access to funding.

### **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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