

CCXAP affirms Qihe Urban Investment Construction Group Co., Ltd's long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 29 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Qihe Urban Investment Construction Group Co., Ltd (“QUIC” or the “Company”) at BBB_{g-}, with stable outlook.

The BBB_{g-} long-term credit rating of Yantai Chefoo reflects Qihe County 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 Qihe County Government's capacity to provide support reflects its status as the second largest county by gross regional product (“GRP”) in Dezhou City, with fast economic growth, but constrained by moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position in infrastructure construction of Qihe County; and (2) good track record of receiving government payments. However, the rating is constrained by the Company's (1) moderate exposure to commercial businesses; (2) fast debt growth and relatively weak asset liquidity; and (3) tight liquidity position.

Corporate Profile

Founded in April 2008, QUIC is the sole infrastructure construction entity in Qihe County, primarily undertaking municipal projects such as infrastructure construction, land development, shantytown renovation, and heat supply businesses. It is also engaged in commercial businesses such as property leasing, property sales, trading of building materials, and operation of a toll bridge. In November 2021, the Qihe County People's Government State-owned Assets Supervision and Administration Bureau (“Qihe SASAB”) transferred all shareholdings of Qihe Urban Management and Construction Investment Co., Ltd. (“QUMC”) to the Company as a capital contribution. As of 30 September 2023, the Company was wholly and ultimately controlled by Qihe SASAB, with a registered capital of RMB5.0 billion.

Rating Rationale

Credit Strengths

Dominant position in infrastructure construction of Qihe County. As the dominant infrastructure construction entity in Qihe County, QUIC mainly engages in public activities through its subsidiary QUMC pursuant to local urban development plans. The Company is responsible for the infrastructure construction, land consolidation, shantytown renovation, heat supply and operation of a toll bridge in Qihe County, which are crucial to local economic and social development. Given its important role in local public welfare, we believe that the Company is unlikely to be replaced in the foreseeable future.

Good track record of receiving government payments. QUIC has a proven track record of receiving government support in the form of asset transfer, capital injection, and operating

subsidies. We believe that, given the important position of QUIC and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

Credit Challenges

Moderate exposure to commercial business. Apart from public services, QUIC has also been engaged in diversified commercial activities, mainly including property sales, self-operation projects, engineering construction, property leasing, and trading businesses. Although the commercial activities can bring in supplemental income, they may also pose certain operating risks to the Company. We estimate that the Company's exposure to commercial businesses is moderate, accounting for 25% to 30% of its total assets at end-2022.

Fast debt growth and relatively weak asset liquidity. Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. Considering the large investment of projects under construction and planning, we expect the Company's debt burden would further increase in the next 12 to 18 months, given its high financing demands for construction projects.

Tight liquidity position. The Company and its subsidiaries have been facing liquidity problem since July 2023. The commercial bills of QUIC's subsidiaries have been overdue for multiple times since July 2023. Apart from that, some of QUIC's non-standard financing products are overdue and the Company needs defer payment of its non-standard financing products. The Company bears relatively large liquidity pressure. We need to pay close attention to its change of liquidity position.

Rating Outlook

The stable outlook on QUIC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important strategic position of infrastructure construction and public utility services in Qihe County.

What could upgrade the rating?

The rating could be upgraded if (1) the 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 improved debt management.

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 strategic significance, deterioration in debt management, or weakened funding ability.



Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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