

CCXAP assigns first-time long-term credit rating of BBB_g- to Zhuzhou Nanzhou Development Group Co., Ltd., with stable outlook.

Hong Kong, 18 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Zhuzhou Nanzhou Development Group Co., Ltd. (“Nanzhou Development” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of Zhuzhou Nanzhou Development Group Co., Ltd. (“Nanzhou Development” or the “Company”) reflects Zhuzhou Municipal Government’s (1) strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Zhuzhou Municipal Government’s capacity to provide support reflects Zhuzhou City’s economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) ultimate control by Zhuzhou Municipal Government; (2) leading position in infrastructure construction and land consolidation of Lukou District; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) high capital expenditure pressure from commercial activities; (2) moderate debt growth and low asset liquidity; and (3) medium exposure to contingent liabilities.

Corporate Profile

Established in 2020, formerly known as Zhuzhou Jinda Venture Capital Co., Ltd., Nanzhou Development is the sole local infrastructure investment and financing company in Lukou District, mainly responsible for infrastructure construction and land development in the region. In addition, the Company is also engaged in commercial activities such as industrial park development, franchises, and rural resource development businesses. As of 30 September 2023, Nanzhou Development was 51% owned by Zhuzhou Resources Investment Group Co., Ltd., (“ZRIG”), with Finance Bureau of Lukou District holding the remaining 49%. Its ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of Zhuzhou Municipal Government (“Zhuzhou SASAC”).

Rating Rationale

Credit Strengths

Leading position in infrastructure construction and land consolidation of Lukou District, with good business sustainability. As the only investment and operation entity in Lukou District, Nanzhou Development has leading position in public policy businesses in the region. Entrusted by the Lukou District Government, the Company undertakes infrastructure construction and land development projects by self-raised funds under agent construction model.

Good track record of receiving government support. As the important infrastructure construction entity in Lukou District, Nanzhou Development has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. In 2023, the local government and ZRIG transferred large amount of equity interests of state-owned enterprises to the Company. Given its strategic position in the development of Lukou District, we believe that the Lukou District Government and its parent company ZRIG will continue to provide support to the Company.

Credit Challenges

High capital expenditure pressure from commercial activities. Nanzhou Development also participates in commercial businesses such as industrial park development, franchises, and rural resource development businesses. At present, the Company's exposure to commercial businesses to be low, accounting for less than 15% of its total assets. However, the Company has large amount of construction projects in the pipeline, resulting in high capital expenditure pressure.

Moderate debt growth and low asset liquidity. Nanzhou Development's debt burden has grown moderately over the past three years, due to the ongoing financing for the construction projects. The Company's total debt had increased from RMB6.5 billion at end-2020 to RMB7.8 billion at end-2023Q3, with total capitalization ratio of 43.3%. Nanzhou Development has low asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company's total asset mainly consisted of inventories and other receivables, accounting for 80% of its total asset.

Medium exposure to contingent liabilities. Nanzhou Development's external guarantee exposure is moderate. As of 30 September 2023, its external guarantee amount was RMB2.4 billion, accounting for 23.0% of its total equity. All external guarantees of the Company are provided to state-owned enterprises in Lukou District. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on Nanzhou Development's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its leading position in the development of Lukou District.

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 local government's willingness to provide support, such as decrease in commercial risks or reduction in exposure to contingent liabilities.

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 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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