

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Pujiang Urban Construction Investment Group Co., Ltd., with stable outlook.**

Hong Kong, 23 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Pujiang Urban Construction Investment Group Co., Ltd. (“PUCI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of the Company reflects (1) Pujiang County Government’s relatively strong capacity to provide support, and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Pujiang County Government’s capacity to provide support reflects Pujiang County’s geographic advantage, with ongoing economic growth. However, the capacity to provide support is constrained by its relatively weak fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong market position in the development of Pujiang County; (2) status as the sole water supplier in Pujiang County; and (3) good track record of receiving ongoing government payments. However, the rating is constrained by the Company’s (1) fast debt growth and moderate asset liquidity; (2) high capital expenditure pressure from area development projects; and (3) medium contingent risks resulting from external guarantee.

### **Corporate Profile**

Established in 2018, the Company’s business involves public services including infrastructure construction, resettlement housing development and water supply in Pujiang County. It is an important local infrastructure investment and financing company (“LIIFC”) in Pujiang County. PUCI also conducts commercial business such as area development projects construction, commodity sales and agency service. As of 30 June 2023, Pujiang State-owned Capital Investment Group Co., Ltd. (“PSCI”) is the sole shareholder of the Company, and the actual controller is the State-Owned Assets Supervision and Administration Office of Pujiang County Government (“Pujiang SASAO”).

### **Rating Rationale**

#### **Credit Strengths**

**Strong market position in the development of Pujiang County.** PUCI is a wholly-owned subsidiary of PSCI, the largest LIIFC by total assets in Pujiang County, which is designated to carry out the Pujiang County Government’s blueprint for municipal development in Pujiang County. The Company accounted for more than 50% of PSCI’s total assets and more than 70% of its net assets as of 30 June 2023, indicating its regional importance. Since its establishment, PUCI has established itself as a leading infrastructure investment and state-owned asset management company and is authorized to undertake construction projects including road, as well as school and environmental projects in Pujiang County.



**Status as the sole water supplier in Pujiang County.** Currently, the Company is the sole water supplier in Pujiang County and has expanded its business to Yiwu City, implying its strong competitiveness in the region. As of 30 June 2023, the Company operated two water plants, with a total daily supply capacity of around 210,000 tons.

**Good track record of receiving ongoing government payments.** As an important infrastructure construction entity in Pujiang County, the Company has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. In light of the Company's strong position in Pujiang County, we expect the Company will receive ongoing support from the local government and its parent PSCI over the next 12 to 18 months.

### Credit Challenges

**Fast debt growth and moderate asset liquidity.** PUCI has increasing debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's total debt increased from RMB3.4 billion at end-2020 to RMB7.3 billion at mid-2023, with a total capitalization ratio of 48.1%. We expect the Company's debt leverage will continue to increase in the future, given its large capital expenditure needs for its construction projects in the pipeline. Besides, The Company's asset liquidity is moderate as there were large amounts of inventories, fixed assets and intangible assets.

**High capital expenditure pressure from area development projects.** The area development business is one of the Company's market-driven business. Currently, the Company has 5 projects under planning with a total planned investment of RMB21.0 billion. The development and settlement mode of the area development projects have not yet been determined, we believe that the Company's capital expenditure is under pressure, and the subsequent capital balance needs to be monitored.

**Medium contingent risks resulting from external guarantee.** PUCI has a medium exposure to contingent liabilities. As of 30 June 2023, the Company's external guarantees amounted to RMB2.9 billion, accounting for 37.1% of its net assets. All the external guarantees are provided to state-owned enterprises in Pujiang County, and with support from the local government, the contingent risk is relatively manageable. However, due to the regional concentration of guaranteed enterprises, the Company may face considerable contingent liability risk when a default event occurs in the region, which could inversely impact its credit quality.

### Rating Outlook

The stable outlook on PUCI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in infrastructure construction projects in Pujiang County.

**What could upgrade the rating?**

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improvement in debt management or asset quality.

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

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in 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**

CCXAP's Rating Symbols and Definitions are available on its website at:

[http://www.ccxap.com/en/rating\\_services/category/6/](http://www.ccxap.com/en/rating_services/category/6/)

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

[http://www.ccxap.com/en/rating\\_services/category/9/](http://www.ccxap.com/en/rating_services/category/9/)

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at [www.ccxap.com](http://www.ccxap.com) (Rating Results) and may be distributed through media and other means.

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](mailto:olivia_feng@ccxap.com)



Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656