

CCXAP assigns first-time long-term credit rating of BBB_g- to Luoyang Shengshi City Construction Investment Co., Ltd., with stable outlook.

Hong Kong, 29 January, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Luoyang Shengshi City Construction Investment Co., Ltd. (“LYSS” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of LYSS reflects Luoyang Municipal Government’s very strong capacity and moderate willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Luoyang Municipal Government’s capacity to support reflects Luoyang City’s status as the second largest city for years by GRP in Henan Province, with growing economy. Moreover, Mengjin District’s GRP ranks top among all the districts or counties in Luoyang City for years.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strategic position in infrastructure construction of Mengjin District; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) large exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) moderate level of contingent risk.

Corporate Profile

Established in 2010, LYSS is one of state-owned enterprises in Luoyang City and is responsible for infrastructure construction in Mengjin District of Luoyang City. The Company has also diversified into other commercial business, including self-operated construction and tourism operation. As of end-2023, the Company was 51% owned by the Luoyang Municipal Government through Luoyang City Development Investment Group Co., Ltd. (“LYCD”) and 49% owned by the Mengjin District Government through Luoyang Guoxing Investment Holding Group Co., Ltd. (“Guoxing Investment”). LYCD is one of the key subsidiaries of Luoyang Guosheng Investment Holding Group Co., Ltd, which is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Luoyang City.

Rating Rationale

Credit Strengths

Strategic position in infrastructure construction of Mengjin District. LYSS is one of the most important LIIFC in Mengjin District in local infrastructure construction projects, which are crucial to local social and economic development that benefits the general public and local employment. We believe that the Company will maintain an important position in the public policy projects in Mengjin District and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government support. LYSS has a good track record of receiving support from the local government in the form of project payments, equity transfer, and operating subsidies to support its investments and the operation of its businesses. Apart

from that, the Company also received support from its shareholder, such as providing guarantees for its financing activities. Considering its strategic role in social and economic development of Mengjin District, we expect the local government will continue to provide support to the Company.

Credit Challenges

Large exposure to commercial business activities. LYSS participates in different commercial activities, mainly including self-operated construction. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its public-policy businesses. The Company had large-scale of self-operated projects under construction and planning, which may increase its future investment pressure. We estimate the Company's risk exposure to commercial business is relatively large.

Increasing debt burden and moderate asset liquidity. Due to the continuous investment in infrastructure construction projects, LYSS's total debt has been growing over the past three years. As of 30 September 2023, LYSS's total debt increased to RMB9.0 billion from RMB6.3 billion as of end-2020. In addition, LYSS's asset liquidity was moderate. As of 30 September 2023, the Company's inventories, receivables account, construction in progress, and other non-current assets accounted for around 70% of the total assets.

Moderate level of contingent risk. The credit profile of LYSS is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the Company's external guarantees accounted for 13.2% of its net assets, most of which were provided to local SOEs. However, the Company has provided external guarantees to two private-owned enterprises, accounted for 9.4% of the total external guarantees, which may expose the Company to higher contingent risks.

Rating Outlook

The stable outlook on LYSS's rating reflects our expectation that the Luoyang Municipal Government's capacity to provide support will be stable, and the Company's characteristics such as its strategic position in social and economic development of Mengjin District will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Luoyang Municipal Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increased regional significance or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Luoyang Municipal 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 deteriorated debt management or increased exposure to contingent liabilities.

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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