

CCXAP assigns first-time long-term credit rating of BBB_g to Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd., with stable outlook.

Hong Kong, 25 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. (“WXCO” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of the Company reflects Chengdu Wenjiang District Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Wenjiang District Government’s capacity to provide support reflects Wenjiang District’s gross regional product (“GRP”) maintains a moderate level in Chengdu City, with relatively good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in the infrastructure construction and city operation in Wenjiang District; (2) solid track record of receiving government payments; and (3) good access to funding channels. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, associated with large capital pressure; (2) increasing debt burden and moderate asset liquidity; and (3) medium contingent risks resulting from external guarantee.

Corporate Profile

Founded in 2016, WXCO is a major local infrastructure investment and financing company (“LIIFC”) in charge of most major infrastructure and resettlement housing projects in Wenjiang District of Chengdu City. The Company has a diverse business portfolio and primarily engages in agency construction business, resettlement housing development, and self-operated project construction. In addition, the Company also generates operating income from other businesses such as building materials sales, leasing and asset management, and real estate sales. As of 30 September 2023, the Company is wholly owned and ultimately controlled by Wenjiang District State-owned Assets Supervision and Administration Bureau (“Wenjiang SASAB”).

Rating Rationale

Credit Strengths

Strong position in the infrastructure construction and city operation in Wenjiang District.

WXCO is mainly responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District. As of 30 September 2023, the Company has an uninvested amount of RMB3.0 billion in the projects under construction and planning, which demonstrates the relatively strong sustainability of the Company’s public projects. Meanwhile, the relatively large amount to be invested also exerts certain capital expenditure pressure in the future. The Company is also responsible for sewage treatment in the region. Given the Company’s strong position in infrastructure construction, resettlement housing development, and sewage treatment in Wenjiang District, we believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. WXCO has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, capital injections, and equity transfers. In light of the Company's strong position in Wenjiang District, we expect the Company will continue to receive ongoing support from the local government over the next 12 to 18 months.

Good access to funding channels. The Company's investment needs are greatly supported by its diversified financing channels. Overall, the financing cost of the Company is relatively low, as the overall funding cost of the Company stays at 4.8%, which demonstrates the recognition of the capital market on the Company's credit profile.

Credit Challenges

Medium exposure to commercial activities. In addition to public welfare activities, the Company is also involved in other commercial activities such as self-operated project construction, building materials sales, asset leasing and management, and property sales. We consider the Company's commercial business exposure to be medium, as its market-driven businesses account for around 35% of its total assets. Among them, the construction of self-operated projects brings large pressure on capital expenditure and the risk of payment collection for the Company.

Increasing debt burden and moderate asset liquidity. With the business expansion in the past few years, the Company's total debt increased from RMB24.2 billion at the end of 2020 to RMB27.1 billion at 30 September 2023, with a total capitalization ratio of 37.2%. As of 30 September 2023, the Company's total asset consists mainly of inventories, accounts receivables, other receivables and intangible assets, accounting for 83.0% of its total assets, most of which are considered to be low liquidity.

Medium contingent risks resulting from external guarantee. The Company bears contingent risk arising from external guarantees. As of 30 September 2023, the Company had outstanding external guarantees of RMB8.8 billion, representing 19.1% of its net assets. Among them, an outstanding amount of RMB45.6 million was provided to relocated households who entered into mortgage loans. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on WXCO's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role as the key infrastructure construction entity in Chengdu Wenjiang District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance the local government's willingness to support, such as decreasing exposure to external guarantees or improving assets liquidity.



What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as reducing strategic significance or weakening access to financing channels.

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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