

CCXAP assigns first-time long-term credit rating of A_g+ to Quanzhou Urban Construction Group Co., Ltd., with stable outlook.

Hong Kong, 8 February, 2024– China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of A_g+ to Quanzhou Urban Construction Group Co., Ltd. (“QUCG” or the “Company”), with stable outlook.

The A_g+ long-term credit rating of QUCG reflects (1) Quanzhou Municipal Government’s very 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 Quanzhou Municipal Government’s capacity to provide support reflects the Quanzhou City’s economic importance in Fujian Province, ranking 2nd among 9 prefecture-level cities in Fujian Province by gross regional product (“GRP”) in 2022, with ongoing growth in economic and fiscal strength.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy role as the most important urban development and operation entity in Quanzhou City; (2) dominant role in local public activities with high sustainability; and (3) track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial business activities; (2) rapid debt growth; and (3) moderate asset liquidity.

Corporate Profile

Founded in 2016, QUCG is the most important local infrastructure investment and financing company (“LIIFC”) in Quanzhou City with the largest asset size. It plays an important public role in land consolidation, infrastructure construction, resettlement housing construction, water supply, and shantytown renovation. The Company also engages in some commercial activities such as supply chain trading, urban operation, and property development. As of 30 September 2023, State-owned Assets Supervision and Administration Commission of Quanzhou Municipal Government (“Quanzhou SASAC”) held 90% and Fujian Province Finance Bureau held the remaining 10% of the Company’s shares, respectively. It is ultimately controlled by Quanzhou SASAC.

Rating Rationale

Credit Strengths

Important policy role as the most important urban development and operation entity in Quanzhou City. After the consolidation of Quanzhou Quangang District State-owned Capital Investment and Operation Co., Ltd. in 2021 and Quanzhou Licheng District State-owned Capital Investment Group Co., Ltd. in 2022, the Company has enhanced its capital strength and broadened its business scope. However, the company has limited control over their actual operations and financial aspects.

High sustainability of local public activities. Positioned as an urban construction and operation service provider, QUCG's public activities mainly include urban renovation, resettlement housing construction, and water supply. The Company has considerable projects in the pipeline, which can ensure the sustainability of the business, but exert large capital expenditure pressure.

Track record of receiving government support. As the most important urban development and operation entity in Quanzhou City, QUCG has a track record of receiving payments from the Quanzhou Municipal Government. These payments take various forms, such as government subsidies, capital injections, and equity transfers. Overall, given its important position and contribution to regional economic development, we believe that QUCG will receive ongoing government support to support its business operations.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, QUCG is also involved in various commercial activities such as supply chain trading, property development, property leasing, and engineering construction. We consider QUCG's commercial business exposure to be medium, as its market-driven businesses account for around 15-20% of its total assets.

Rapid debt growth driven by large capital expenditure needs. With ongoing financing for its construction projects in recent years, QUCG demonstrates a rapid debt growth. The Company's total debt increased from RMB24.6 billion at end-2020 to RMB59.6 billion as of 30 September 2023, while its total capitalization increased from 32.3% to 43.8% over the same period.

Moderate asset liquidity. Furthermore, QUCG has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories and other non-current assets, which accounted for 80.8% of its total asset as of 30 September 2023.

Rating Outlook

The stable outlook on QUCG's rating reflects our expectation that Quanzhou Municipal Government's capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Quanzhou City over the next 12 to 18 months.

What could upgrade the rating?

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

What could downgrade the rating?



The rating could be downgraded if (1) Quanzhou Municipal 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 importance of its policy role, or material decrease in government payments.

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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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.

Peter Chong
Assistant Director of Credit Ratings
+852-2860 7124
peter_chong@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111



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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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656