

CCXAP affirms Baoying Development Investment Co., Ltd.'s long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 8 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Baoying Development Investment Co., Ltd. (“BDIC” or the “Company”) at BBB_{g-}, with stable outlook.

The BBB_{g-} long-term credit rating of Baoying Development Investment Co., Ltd. (“BDIC” or the “Company”) reflects Baoying County Government’s relatively strong capacity to provide support; and the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the Baoying County Government’s capacity to provide support reflects Baoying County’s comprehensive strength, ranking in the Top 100 counties in China, complemented with its geographic advantage, and modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role as the primary platform for infrastructure construction in Baoying Economic and Technological Development Zone (“Baoying ETDZ”); and (2) track record of receiving government support. However, the rating is constrained by the Company’s (1) large investment needs from self-operated projects; (2) increasing debt level with a relatively high short-term debt burden; and (3) medium risk of contingent liabilities from external guarantees.

Corporate Profile

Founded in 2003, BDIC is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Baoying County, it is mainly responsible for construction projects of infrastructure, resettlement housing, factory building, as well as land consolidation in Baoying ETDZ. The Company also participates in commercial activities such as plant leasing and industrial park construction. On 25 December 2023, Baoying County Financial Service Centre (“Baoying FSC”) replaced Baoying County SME Financing Service Centre (“Baoying SME”), due to the deregistration of Baoying SME, as BDIC’s majority shareholder. As of 31 December 2023, Baoying County Government controlled BDIC with the indirect holding of 30% of the share through Jiangsu Baoying Economic Development Holding Co., Ltd. (“BEDH”) and direct holding of 70% of the share.

Rating Rationale

Credit Strengths

Primary platform for infrastructure construction in Baoying ETDZ. BDIC plays a key role in promoting the social and economic development of Baoying ETDZ and is designated to carry out the directions and policies for the county development of the Baoying County Government. As one of the two major LIIFCs in Baoying County, BDIC is positioned as the primary platform for infrastructure construction, factory building, resettling housing, land consolidation and transfer in Baoying ETDZ and two towns under the jurisdiction of Baoying County. Considering

the BDIC's essential role in Baoying County, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future.

Track record of receiving government payments. BDIC has received ongoing support from the Baoying County Government including project payments and operational subsidies. From 2020 to 2023Q3, the Company received a total of RMB637.7 million in financial subsidies from the local government, which was a great contribution to the Company's net profit and will give the Company more resources and flexibility to support new investments and constructions. Given the Company's strong public policy role and expanding public-related activities align with its project reserves in the Baoying ETDZ, we expect the Company will continue to receive government payments over the next 12 to 18 months.

Credit Challenges

Increasing debt level with a relatively high short-term debt burden. BDIC's debt level kept increasing due to the finance for ongoing self-operated projects and agency construction projects and its debt leverage maintained at a moderate level. The Company's asset liquidity was moderate, as its total asset mainly consists of other receivables and contract assets. Besides, the Company had pledged assets of RMB1.3 billion for loans, representing 12.9% of total assets as of 30 September 2023. Given the Company's large capital expenditure arising from its projects, especially its start-age self-operated projects, we expect the Company's total debt will continue to grow in the next 12 to 18 months.

Fair access to bank borrowing and high reliance on funding from the capital market. BDIC has fair access to different sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. However, the Company's high reliance on direct financing may cause the refinancing stability of the Company to be easily affected by fluctuations in the capital market. In addition, its credit facilities reserve improved although remained small.

Medium risk of contingent liabilities for the external guarantee. BDIC remained medium exposure to contingent liabilities, which could potentially increase its repayment obligations. Its external guarantees amounted to RMB4.3 billion as of 31 December 2022, relative to 77.8% of its net assets. Existing external guarantees were provided to other local LIIFCs and local state-owned enterprises ("SOE") in Baoying County without counter-guarantee measures.

Rating Outlook

The stable outlook on BDIC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Baoying County.

What could upgrade the rating?

The rating could be upgraded if (1) Baoying County Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local

government's willingness to provide support, such as improved regional importance and reduction in the exposure to external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) Baoying County 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 importance or weakened government support.

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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