

CCXAP assigns first-time long-term credit rating of BBB_g- to Lanzhou New District Modern Agriculture Investment Group Co., Ltd., with stable outlook.

Hong Kong, 21 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Lanzhou New District Modern Agriculture Investment Group Co., Ltd. (“LNAI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of LNAI reflects Lanzhou New District Government’s (1) strong capacity to provide support, and (2) high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Lanzhou New District Government’s capacity to provide support reflects Lanzhou New District’s status as the first national-level new district in the northwest region of China, with increasing fiscal strength, but rising debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in the agricultural infrastructure construction of Lanzhou New District; and (2) solid track record of receiving government support. However, the Company’s rating is constrained by its (1) fast debt growth and weak asset liquidity; (2) moderate exposure to commercial activities; and (3) moderate access to funding.

Corporate Profile

Founded in 2017, LNAI is the key state-owned enterprise responsible for agricultural infrastructure construction in Lanzhou New District. Its business scope covers agricultural infrastructure construction, engineering construction, sale of agricultural product and materials. As of 30 September 2023, the Company was wholly owned and directly controlled by the Finance Bureau of Lanzhou New District.

Rating Rationale

Credit Strengths

Important role in the agricultural infrastructure construction of Lanzhou New District.

LNAI is the key state-owned entity responsible for agricultural infrastructure construction in Lanzhou New District, undertaking construction projects, agricultural product sales, material sales in the region. Since establishment, the Company has invested about RMB23 billion into 92 construction projects, including modern agriculture demonstration park, rural revitalization industrial park, ecological restoration and farmland construction, modern agricultural park, afforestation and resettlement housing projects, laying a solid foundation for the development of modern agriculture, ecological restoration and management, and integrated industrial development in Lanzhou New District. We believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Good track record of receiving government support. As the key entity in charge of infrastructure construction in the Lanzhou New District, the Company has a good track record of receiving support from the local government in the past few years. The support mainly includes asset transfer, special bond funds, and operating subsidies. In light of LNAI's important regional position in the Lanzhou New District, we expect the Company will continue to receive ongoing support from the local government over the coming 12-18 months.

Credit Challenges

Fast debt growth and weak asset liquidity. Project construction have caused the Company's total debt to rise in the past few years. The total debt of the Company has rose from RMB5.4 billion at end-2020 to RMB9.3 billion at end of September 2023, with total capitalization ratio of 48.9%. Meanwhile, LNAI has weak asset liquidity. The Company's total asset mainly consists of other receivables, inventory, construction in progress and intangible asset, which accounted for 73.5% of its total assets as of 30 September 2023.

Medium exposure to commercial activities. In addition to public activities, LNAI is also involved in commercial activities, such as sale of materials and agricultural products. We estimate that the Company has moderate commercial exposure as the proportion of commercial business assets accounts for less than 30% of its total assets. Given the large number of projects in the pipeline, we expect the Company's exposure to commercial activities will increase in the next 12-18 months.

Moderate access to funding. LNAI's external financing mainly relies on bank loans. Nearly all of the debt was provided by bank loans as of 30 September 2023, with an average financing cost of around 5.2% to 5.5%. The Company plans to issue onshore and offshore bonds to broaden its financing channels as well as improve its debt structure.

Rating Outlook

The stable outlook on LNAI's rating reflects our expectation that the Lanzhou New District Government's capacity to provide support will remain stable, and the Company will maintain its key role in the agricultural infrastructure construction of Lanzhou New District.

What could upgrade the rating?

The rating could be upgraded if (1) Lanzhou New District Government's capacity to provide 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) Lanzhou New District 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 weakened market position or material decrease in 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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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