

CCXAP upgrades Chongqing Nanzhou Water Group Co Ltd.'s long-term credit rating to BBB_{g-}, with stable outlook.

Hong Kong, 6 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Chongqing Nanzhou Water Group Co Ltd. (“CNWG” or the “Company”) to BBB_{g-} from BB_{g+}, with stable outlook.

The rating upgrade is based on the improving regional strength, which strengthens the local government’s capacity to support the Company. It also reflects the important position of the Company, as the sole water conservancy constructor in Qijiang District.

The long-term credit rating of CNWG reflects Qijiang District Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Qijiang District Government’s capacity to provide support reflects Qijiang District’s steady economic growth, but is constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the sole water conservancy construction entity in Qijiang District and water supply platform outside the main urban area; (2) large project reserves in water conservancy construction; and (3) solid track record of receiving government support, especially for the construction of water conservancy projects. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) weak asset liquidity; and (3) high short-term debt repayment pressure and relatively high financing cost.

Corporate Profile

Formerly known as Qijiang County Yunan Water Conservancy and Hydropower Engineering Development Co., Ltd., CNWG was founded in 2002 and is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Qijiang District. It is the only platform engaged in the construction of water conservancy facilities. The Company is also responsible for public utility services in Qijiang District, including water supply and drainage, sewage treatment and hydroelectric power generation. On top of that, the Company also undertakes various commercial activities, such as property development, engineering construction, and forestry maintenance. As of 30 September 2023, the State-owned Assets Supervision and Administration Commission of Qijiang District (“Qijiang SASAC”) was the ultimate controller of the Company by holding 99% of its shares, and the remaining 1% of shares was held by Chongqing Yongcheng Investment Co., Ltd.

Rating Rationale

Credit Strengths

Important role as the sole water conservancy construction entity in Qijiang District.

There are five major LIIFCs in Qijiang District, but CNWG is the only platform to undertake water conservancy construction and operation in Qijiang District, and is responsible for water

supply within Qijiang District outside the main urban area. The Company is also mandated by the local government to undertake local public activities, such as infrastructure construction, land transfer, sewage treatment and hydroelectric power generation.

Large project reserves in water conservancy construction. As the sole water conservancy construction entity, the Company has a regional monopoly position in the investment, financing, and construction of water conservancy construction in Qijiang District. As of 30 September 2023, the Company had 8 infrastructure construction projects under construction and 4 reservoir projects under planning. The sufficient project reserves demonstrated the high sustainability of the Company's public-policy businesses.

Solid track record of receiving government support. CNWG has a good track record of receiving payments from the Qijiang District Government. These payments take various forms, such as government subsidies and capital injections. The Company also regularly receives repurchase payments for its water conservancy construction projects, infrastructure construction projects, and land transfer projects. Considering the Company's policy role as the sole water conservancy construction entity and the important water supplier in Qijiang District, we expect government support for CNWG to continue in the next 12 to 18 months.

Credit Challenges

Moderate exposure to commercial activities. In addition to public activities, CNWG is also involved in various commercial activities such as property development, engineering construction, and forestry maintenance. We consider CNWG's commercial business exposure to be moderate, as its market-driven businesses account for only around 20% of its total assets.

Weak asset liquidity. The Company's total asset mainly consists of inventories receivables, contract assets and construction in progress, which accounted for 71.7% of its total assets as of 30 September 2023. Inventories were mainly land and investment costs for infrastructure construction projects, while receivables were mainly unreceived payments from government agencies or other state-owned companies, all of which are considered low liquidity.

High short-term debt repayment pressure and relatively high financing cost. The Company is exposed to certain short-term debt repayment pressure, with a cash/short-term debt ratio of 0.4x as of 30 September 2023. The Company has a low exposure to non-standard financing, which accounted for about 7.7% of total debt financing at end-2023Q3. However, the average cost of non-standard financing was relatively high at 7.0% to 7.5%.

Rating Outlook

The stable outlook on CNWG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important role as the sole water conservancy construction entity in Qijiang District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as decreased exposure to commercial activities.

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 reduced regional significance.

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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