

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Chongqing Beibei District Garden Municipal Construction Co., Ltd., with stable outlook.**

Hong Kong, 13 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Chongqing Beibei District Garden Municipal Construction Co., Ltd. (“CBGM” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of CBGM reflects Beibei 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 the Beibei District Government's capacity to provide support reflects Beibei District's location advantage in Chongqing City with good industrial fundamentals and economic potential.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strategic position as the major entity of urban renewal and upgrading, and as the core operator of assets and resources in Beibei District; and (2) relatively low debt leverage. However, the rating is constrained by the Company's (1) weak asset liquidity; (2) moderate access to financing channels with limited financial flexibility; and (3) medium exposure to contingent liability risk.

### **Corporate Profile**

CBGM, founded in 1984, is one of the major entities of urban renewal and upgrading, and the core operator of assets and resources in Beibei District after equity transfer and capital injection in 2022 and 2023. CBGM mainly engages in municipal landscape engineering and agency construction projects. In addition, it also engages in more commercially driven activities, including security services, human resources services, sanitation, engineering detection and self-operated project construction. As of 30 June 2023, the State-owned Assets Supervision and Administration Commission of Beibei District, Chongqing City (“Beibei SASAC”) was the ultimate controller of the Company, holding 100% stakes of the Company through Chongqing Jinyun Asset Management (Group) Co., Ltd. (“CJAM”).

### **Rating Rationale**

#### **Credit Strengths**

#### **Strategic position of the major entity of urban renewal and upgrading in Beibei District.**

CBGM plays a vital role in the urban renewal and upgrading of the Beibei District. CBGM conducts some local projects including municipal landscape and affordable rental housing. Considering its strategic position as the major entity of urban renewal and upgrading and as the core operator of assets and resources in Beibei District, we believe the Company will maintain its vital importance to local projects and services.

As the major entity of urban renewal and upgrading and the core operator of assets and resources in Beibei District, in addition, CBGM has received recurring support from the local

government and CJAM, including financial subsidies, asset injection and project payments. In light of CBGM's important strategic role in the region, we expect the Company will receive ongoing support from the government and its parent in the future.

**Relatively low debt leverage.** As of 30 June 2023, the Company's total debt increased to RMB2.2 billion from RMB1.4 billion as of end-2020, while the total capitalization ratio, as measured by total debt to total capital, also increased from 12.5% to 19.0% during the same period. In addition, the Company's debt maturing structure is reasonable. As of 30 June 2023, its short-term debt accounted for about 19.0% of its total debt.

### Credit Challenges

**Weak asset liquidity.** CBGM has weak asset liquidity. As of 30 June 2023, the Company's construction in progress, inventories and other receivables accounted for 84.7% of its total assets. The Company's inventories were mainly investment costs for infrastructure construction projects and land use rights, while construction in progress was mainly past infrastructure investment.

**Moderate access to financing channels with limited financial flexibility.** The Company mainly relies on bank loans and non-standard financing. As of 30 June 2023, around 86.0% of the Company's debt financing was provided by domestic banks. The Company's exposure to non-standard financing is manageable, accounting for around 13.9% of total debt financing as of 30 June 2023. However, its non-standard financing average cost is relatively high, which was around 7.3% at mid-2023.

**Medium exposure to contingent liability risk.** The Company has certain exposure to external guarantees. As of 30 June 2023, the Company's external guarantees amounted to RMB3.2 billion, accounting for 33.8% of its net assets. All the external guarantees were provided to local state-owned enterprises in Beibei District such as CJAM and its affiliates. Nevertheless, if a credit event occurs in Beibei District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

### Rating Outlook

The stable outlook on CBGM'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 position with the development of Beibei District.

#### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as decreased exposure to contingent liability risk and diversified financing channels.

#### What could downgrade the rating?



The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance or increase in exposure to commercial activities.

### **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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