

CCXAP affirms Zhoushan Putuo Urban Investment Development and Construction Co., Ltd.'s long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 15 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed long-term credit rating of BBB_{g-} to Zhoushan Putuo Urban Investment Development and Construction Co., Ltd. (“Putuo Construction” or the “Company”), with stable outlook.

The BBB_{g-} long-term credit rating of Putuo Construction reflects Putuo District Government’s strong capacity to support and very high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Putuo District Government’s capacity to provide support reflects the fact that Zhoushan Putuo District is rich in seafood, port and tourism resources, but constrained by its small economic scale and modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position in the construction of infrastructure projects in Putuo District, especially in Lujiaoshi Island and Donggang New Area; and (2) strong support from the local government and its parent company. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) relatively high short-term debt repayment pressure and high reliance on non-standard financing; and (3) medium contingent liability risk from external guarantee.

Corporate Profile

Formerly known as Zhoushan Bangsheng Trading Co., Ltd., the Company was founded by Zhoushan City Putuo Gangfu Development Construction Co., Ltd. (“Putuo Gangfu”) with an initial registered capital of RMB25 million in August 2008. In January 2022, Putuo Gangfu transferred 100% of the Company’s equity shares to Zhoushan Putuo Urban Investment Development Group Co., Ltd. (“PUIG”). The Company is mainly responsible for the infrastructure construction and resettlement housing projects in Lujiaoshi Island and Donggang New Area in Putuo District. It is also involved in trading, asset leasing and security services businesses. As of 30 September 2023, the Company was wholly owned by PUIG and ultimately controlled by the Finance Bureau of Putuo District, Zhoushan City.

Rating Rationale

Credit Strengths

Important position in the construction of infrastructure and resettlement housing project in Putuo District. As the most important core subsidiary of PUIG, the Company is mainly responsible for infrastructure construction, land development and sales of resettlement housing in Lujiazhi Island of Putuo District. Given the Company’s important role in local economic development, we expect Putuo Construction is unlikely to be replaced in the foreseeable future.

Strong support from the local government and its parent company. Putuo Construction has a proven track record of receiving support from both the local government and parent company in the form of capital injection, asset transfers and financial subsidies. In terms of equity injection, in 2021, the Company received 100% of the equity transfer of several companies held by PUIG, with the approval of Zhoushan Putuo State-owned Assets Management Office. We expect the local government and Putuo Construction's parent company will continue to provide ongoing support to the Company, given Putuo Construction's important role in the investment and construction of the Putuo District.

Credit Challenges

Medium exposure to commercial activities. Putuo Construction's commercial businesses mainly include trading, security services and asset leasing businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 30% of its total assets.

Relatively high short-term debt repayment pressure and high reliance on non-standard financing. Due to the merger of subsidiaries and expansion of construction projects, Putuo Construction's debt burden is increasing. Its total debt has increased from RMB232.7 million at end-2020 to RMB6.8 billion at 2023Q3, with a total capitalization ratio of 47.0% as of 30 September 2023. However, the Company also had a relatively high reliance on non-standard financing, accounting for 57.5% of its total debt as of 30 September 2023. The cost of its non-standard debt is controlled at around 6.8%.

Medium contingent liability risk from external guarantee. As of 30 September 2023, the total amount of external guarantees of the Company was RMB2.1 billion, representing 27.4% of its net assets. All these external guarantees were provided to local state-owned enterprises in Putuo District.

Rating Outlook

The stable outlook on Putuo Construction's rating reflects our expectation that the Putuo District Government's capacity to provide support will be stable, and that the Company will maintain its important role in infrastructure construction in Putuo District over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Putuo 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 provide support, such as decreased exposure to commercial activities and expanded financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) Putuo 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 reduced strategic significance or decreased government payment.

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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