

CCXAP assigns first-time long-term credit rating of BBB_g- to Xiapu County State-owned Assets Investment and Operation Co., Ltd., with stable outlook.

Hong Kong, 15 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Xiapu County State-owned Assets Investment and Operation Co., Ltd. (“XSAI” or the “Company”) with stable outlook.

The BBB_g- long-term credit rating of XSAI reflects Xiapu County Government’s (1) relatively strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Xiapu County Government’s capacity to provide support reflects Xiapu County’s economic importance in Ningde City, with fast economic and fiscal growth, but constrained by its relatively small economic scale.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy role as the most important infrastructure construction entity and the sole public utility services provider in Xiapu County; (2) good track record of receiving government support; (3) reasonable debt leverage. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate asset liquidity; and (3) limited access to funding.

Corporate Profile

Established in 1997, XSAI is the most important local infrastructure construction and state-owned capital operation entity in Xiapu County. The Company is mainly responsible for infrastructure construction projects in Xiapu County. It also provides key public utility services in Xiapu County including natural gas, and water supply. In addition, the Company is also engaged in commercial activities such as property leasing and material trading businesses. As of 30 September 2023, the Company was wholly owned and ultimately controlled by Xiapu County State-owned Assets and Financial Service Center (“Xiapu SAFSC”).

Rating Rationale

Credit Strengths

Important policy role as the most important infrastructure construction entity and the sole public utility services provider in Xiapu County. The Company is the most important local infrastructure investment and financing companies with the largest assets size in Xiapu County, and mainly responsible for local infrastructure construction projects as well as public utility services in Xiapu County. Given its strong regional importance in Xiapu County, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future. In addition, the abundant construction projects under pipeline can ensure the business sustainability of the Company.

Good track record of receiving government payments. As the most important infrastructure construction entity in Xiapu County, XSAI has a proven track record of receiving government support in the form of cash injection, equity transfers, financial subsidies and project payments. Since 2020, the local government has transferred large amount of equity interests of state-owned enterprises to the Company, significantly increasing its capital reserves. Given the Company's strong position in undertaking infrastructure construction projects in Xiapu County, we expect the local government will continue to support the Company in the future.

Reasonable debt leverage. XSAI's debt burden has increasingly grown over the past three years, due to the ongoing financing for the construction projects. The Company's total debt had increased from RMB984.4 million at end-2020 to RMB3.1 billion at end-2023Q3, with a reasonable total capitalization ratio of around 22.6%. Moreover, the Company has a reasonable debt structure. As of 30 September 2023, the short-term debt accounted for about 14.3% of total debt, and its cash to short-term debt ratio was 7.6x, indicating sufficient monetary funds to cover the short-term debt repayment.

Credit Challenges

Medium exposure to commercial activities. XSAI also participates in commercial activities such as self-operated projects, property leasing, and trading businesses. We consider the Company's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

Moderate asset liquidity. XSAI has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company's total asset mainly consisted of inventories, investment properties and construction in progress, accounting for 66.3% of its total asset. Inventories are mainly investment costs for infrastructure construction projects. Nevertheless, it has investment properties with a value of RMB3.8 billion for leasing, providing stable supplementary income to the Company.

Limited access to funding. The Company mainly relies on bank loans for funding, with average interest rate of around 4.8%. It maintains good relationship with domestic commercial and policy banks, such as Agricultural Development Bank of China and China Development Bank. As of 30 September 2023, it had obtained total credit facilities of RMB5.2 billion, with unutilized amount of RMB533 million, mostly from the China Development Bank, indicating limited standby liquidity. The Company has not issued bonds in the public market and plans to tap the bond markets to broaden its funding channels.

Rating Outlook

The stable outlook on XSAI'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 Xiapu County.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improvement in exposure to commercial activities.

What could downgrade the rating? The rating could be downgraded if (1) the local 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 decrease in its strategic significance; decrease in government payments; or increase in debt leverage.

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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