

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Jiangsu Shuangxi Industrial Co., Ltd., with stable outlook.**

Hong Kong, 26 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 Jiangsu Shuangxi Industrial Co., Ltd. (“JSSX” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of JSSX reflects the Suining County Government’s strong capacity to provide support and its very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Suining County’s improving economic and fiscal strengths. However, its fiscal balance is relatively weak.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) importance as the sole entity for infrastructure construction in the Xuzhou Airport Economic Development Zone (“Airport EDZ”) of Suining County; (2) sufficient project reserves supported by the ongoing economic development of Airport EDZ; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; (3) moderate access to funding with certain exposure to non-standard financing products; and (4) medium level of contingent risk.

### **Corporate Profile**

Established in 2014, JSSX is the sole entity for infrastructure construction in Xuzhou Airport EDZ which is located in Suining County. The Company is mainly engaged in investment, financing and management of urban infrastructure, land consolidation and aviation industry investment. Besides, JSSX also conducts in commercial activities such as trading, property development, financial investment and leasing. In 2023, Suining County Extrabudgetary Funds Management Bureau agreed to transfer 100% shares of the Company to Suining Industrial Investment Group Co., Ltd. (“SNII”), a wholly-owned state-owned company of Suining County State-owned Assets Management Service Center (“Suining SAMSC”). As of 5 January 2024, the Company’s controlling shareholder was officially changed to SNII but the ultimate controller, Suining County People’s Government, remained unchanged.

### **Rating Rationale**

#### **Credit Strengths**

**Position as the sole infrastructure constructor in Airport EDZ.** JSSX is the sole entity undertaken the construction and development tasks in Airport EDZ, including infrastructure construction, resettlement housing construction, land development, as well as transportation infrastructure construction projects in Suining County. Considering its strategic role and large project reserves, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

**Good track record of receiving government support.** In recognition of the importance of JSSX to Suining County, the Company has received comprehensive support from the government in terms of equity transfer, asset injections, project repayments, and operating subsidies. With the strengthening of investment attraction policy and the continuous inbound investment in Suining County, we expect the Company to receive ongoing government support to sustain the further construction of government-mandated public projects and investments.

### Credit Challenges

**Medium risk exposure to commercial activities.** JSSX is engaged in commercial activities including property development, trading, financial investment and leasing. While commercial activities generate supplemental income, they may pose higher business risks than infrastructure construction businesses. Based on our assessment, the Company's risk exposure to commercial activities is medium, whose assets accounted for around 20% of the total assets.

**Increasing debt burden and moderate asset liquidity.** Due to large investments in construction projects, JSSX has experienced a continuous increase in both debt scale and debt leverage over the past three years. Considering future investment in infrastructures and commercial activities, the Company is expected to rely on external financing so that the debt leverage may maintain or increase in the next 12-18 months. Besides, JSSX's asset liquidity was moderate as large portion of inventories with less liquid.

**Moderate access to funding.** JSSX has access to different funding channels including bank loans, domestic capital market and non-standard financing products, which could partially release its capital expenditure pressure. However, JSSX's exposure to non-standard financing products was moderate. The non-standard financing product generally has high financing cost, which would bring higher refinancing pressure to the Company.

**Medium level of contingent risk.** The credit profile of JSSX is constrained by its external guarantees, which could potentially increase its repayment obligations. Most of the guarantees are provided to other state-owned enterprises within Suining County. If a credit event occurs in the region, the Company may face certain contingent liability risks. However, we believe that the credit risk of the guarantee is moderately controllable, taking the local government's support to some of these local state-owned enterprises.

### Rating Outlook

The stable outlook on JSSX's rating reflects our expectation that the Suining County Government's capacity to provide support will remain stable, and the Company will maintain its important role in infrastructure construction in Suining County, especially in Airport EDZ over the next 12-18 months.

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's



willingness to provide support, such as improved policy importance, improved debt management and improved financing ability.

### **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 reduced policy significance, material increase in commercial activities or deteriorated debt management.

### **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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