

CCXAP assigns first time long-term credit rating of BBB_g- to Changge Urban Construction Investment Co., Ltd., with stable outlook.

Hong Kong, 10 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Changge Urban Construction Investment Co., Ltd. (“CUCI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of CUCI reflects Changge City Government’s (1) strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Changge City Government’s capacity to support reflects Changge City’s good economic fundamentals ranking top among all the counties or districts in Xuchang City with moderate fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in urban construction of Changge City; and (2) track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt burden and moderate asset liquidity; (2) limited financing channels and standby liquidity; and (3) medium exposure to contingent liability risk.

Corporate Profile

Established in 2016, CUCI is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Changge City and is mainly responsible for urban construction in Changge City. CUCI is the second largest LIIFC in terms of total assets in Changge City. The Company has also diversified into other commercial business, including self-operated construction, trading, and leasing. As of 30 September 2023, the State-owned Assets Administration Commission of Change City directly owned 100% shares of the Company.

Rating Rationale

Credit Strengths

Important role in urban construction of Changge City. CUCI is one of the major LIIFCs in Changge City and is mainly responsible for urban construction in Changge City. As the second large LIIFC by total assets, the Company plays an important role in social and economic development of Changge City, which is close to the development blueprint of local government.

Track record of receiving government support. CUCI has track record of receiving support from the local government in the form of project payments and equity transfer to support its investments and the operation of its businesses. Considering the Company’s important role in the development of Changge City, we expect CUCI will continue receiving support from the local government.

Credit Challenges

Increasing debt burden and moderate asset liquidity. CUCI’s total debt continuously increased over the past three years due to the ongoing investment for construction projects.

Considering the ongoing investment for urban construction and self-operated projects, we expect the Company would continue to rely on external financings such as bank loans, and the total debt would further increase over the next 12-18 months. CUCI also had weak asset liquidity. Moreover, there's a certain recovery risk from private-owned enterprises.

Limited financing channels and standby liquidity. The Company mainly finances its construction projects through bank loans, accounting for around 80% of its total debts. The Company also had certain exposure to non-standard financing. These types of financing generally have high financing cost and short-term borrowing period, which may enlarge CUCI's refinancing pressure.

Medium exposure to contingent liability risk. CUCI bears moderate exposure to contingent risk resulting from relatively large external guarantees, all of which were provided to local SOEs. The practice of mutual guarantees among local SOEs is common in Changge City. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

Rating Outlook

The stable outlook on CUCI's rating reflects our expectation that the Changge City Government's capacity to provide support will be stable, and the Company's characteristics such as its important position in social and economic development of Changge City will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Changge City Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved debt management or increased financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Changge City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decreased regional significance or increased 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

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/



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