

CCXAP affirms Qufu Xingda Investment Development Co., Ltd.'s long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 24 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Qufu Xingda Investment Development Co., Ltd.’s (“QFXD” or the “Company”) long-term credit rating at BBB_{g-}, with stable outlook.

The BBB_{g-} long-term credit rating of QFXD reflects Qufu City Government’s (1) relatively strong capacity to provide support based on our assessment of Qufu City; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Qufu City Government’s capacity to support reflects Qufu City’s moderate fiscal metrics, supporting by its rich tourism resources base.

The rating also reflects the local government’s very high willingness to provide support, based on the Company’s (1) full ownership and ultimate control by Qufu City Government; (2) sole entity undertaking public infrastructure construction projects within Qufu City; and (3) solid track record of government support. However, the rating is constrained by the Company’s (1) higher business risk in property development and industrial park construction; (2) ongoing debt growth with certain capital expenditure pressure; and (3) fair access to financing channels.

Corporate Profile

Founded in September 2015, QFXD is the pivotal local infrastructure investment and financing company (“LIIFC”) in Qufu City with the largest total assets. In accordance with the economic development strategy and social development requirements of Qufu City, QFXD is responsible for public infrastructure and policy-driven projects, including infrastructure construction and resettlement housing construction. The Company also carries out some commercial activities, consisting of property development, gravel sales, property management, and industrial parks construction and operation. As of 30 June 2023, it was directly and wholly owned by Qufu City State-owned Assets Service Center, and Qufu City Government was its ultimate controller.

Rating Rationale

Credit Strengths

Sole entity undertaking public infrastructure construction projects within Qufu City.

QFXD is the largest LIIFC in Qufu City, which controls and manages most of the key LIIFCs in the region. The Company has an essential strategic role in the development of Qufu City, with a policy mandate to undertake major construction projects, along with the local government’s broad strategy in developing Qufu City. The visibility and predictability of the Company’s business position is high and its policy mandate is strong, in our view.

Solid track record of government support.

As an essential entity in infrastructure construction and public utility operation in Qufu City, QFXD has solid track record of receiving ongoing support from the local government in terms of asset injections, equity transfers and, operating subsidies. In order to build the largest and the most important LIIFC in Qufu City, the

local government transferred three major LIIFCs to QFXD in 2019. The successful consolidation of the LIIFCs significantly enlarged the range of business coverage of the QFXD.

Credit Challenges

Higher business risk in property development and industrial park construction. QFXD's major commercial businesses include property development, gravel sales, property management, and industrial park construction and operation, exerting relatively high capital expenditure pressure. The Company's risk exposure to commercial business was medium as we estimated the commercial assets accounted for less than 30% of total assets as of 30 June 2023. However, the increasing investments in commercial activities will inevitably expose the Company to higher business and financial risks. Moreover, the fund balancing of property development business would suffer from high volatility especially during the downturn in China's property market.

Ongoing debt growth with certain capital expenditure pressure. Driven by continuous financing and investment for construction projects, QFXD's total debt has been growing over the past three years. The significant increase in the total debt is mainly driven by the investment in several infrastructure construction projects, we believe its debt growth is in line with the region's development need. Considering the large capital expenditure needs of its construction projects, we expect the Company's total debt will continue to rise.

Fair access to funding channels. QFXD has fair access to financing channels and majority of the debts were come from domestic banks. The Company has built good long-term relationships with policy banks and major commercial banks. In addition, we considered its exposure to non-standard product financing was moderate, accounting for around 15% of its total debt. Given the QFXD's important status and the key role in the local development of Qufu City, we expect the Company to maintain access to stable funding from the local commercial banks.

Rating Outlook

The stable outlook on QFXD rating reflects our expectation that Qufu City Government's capacity to provide support will be stable, and the Company's characteristics such as its strategic role in the development and operation of Qufu City will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Qufu City 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 lowering exposure to risky commercial activities, and diversifying the financing channels.

What could downgrade the rating?



The rating could be downgraded if (1) Qufu City 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, deteriorated debt management, 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

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http://www.ccxap.com/en/rating_services/category/6/

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