

## CCXAP affirms Longyou State-owned Assets Management Co., Ltd.'s long-term credit rating at BBB<sub>g-</sub>, with stable outlook

Hong Kong, 29 April 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Longyou State-owned Assets Management Co., Ltd. (“LSAM” or the “Company”) at BBB<sub>g-</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of LSAM reflects (1) Longyou County Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Longyou County Government’s capacity to provide support reflects Longyou County’s relatively good investment potential, with relatively good industrial base and fiscal stability, but constrained by its relatively small economic scale and weak fiscal self-sufficiency.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant strategic role as the key state-owned enterprise in Longyou County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt leverage and weak asset liquidity; and (3) medium exposure to contingent risks.

### Corporate Profile

Established in 2003, LSAM is the major local infrastructure investment and financing company (“LIIFC”) in Longyou County. It plays an important role in the local public policy activities, such as infrastructure construction, resettlement housing construction, land quota transfer, water supply, sewage treatment, and tourism. Besides, the Company also engages in some commercial activities such as concrete and sandstone trading, property leasing. As of 30 September 2023, the Company was wholly owned by Longyou State-owned Capital Investment Group Co., Ltd (“LSCI”), and ultimately controlled by the State-owned Assets Supervision and Administration Office of Longyou County Government (“Longyou SASAO”).

### Rating Rationale

#### Credit Strengths

**Dominant strategic role as the key state-owned enterprise in Longyou County.** The Company remained as an important infrastructure construction and state-owned assets management entity in Longyou County, undertaking the mandate by the local government to undertake local public activities that are vital to local economic and social development.

**High sustainability for public policy projects.** LSAM has undertaken a large amount of public policy projects, such as roads, schools, resettlement housings, and pipe networks, and provided utilities, tourism, and grain storage services in Longyou County. Given sufficient projects under construction, we consider the sustainability of the public-related businesses to be high, but the Company may face large capital expenditure pressure.

**Good track record of receiving government payments.** LSAM has a solid track record of receiving payments from the Longyou County Government. These payments take various forms, such as government subsidies, capital injections, and asset transfers. The Company regularly receives government subsidies and capital injections to support its business operation. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

### Credit Challenges

**Medium exposure to commercial activities.** In addition to public activities, LSAM is also involved in various commercial activities such as concrete and sandstone trading, and property leasing. We consider LSAM's commercial business exposure to be medium, as its market-driven businesses account for around 25% to 30% of its total assets.

**Increasing debt leverage and weak asset liquidity.** With ongoing financing for its construction projects in recent years, LSAM has a high debt leverage. The Company's total debt increased from RMB11.9 billion at end-2022 to RMB17.3 billion at end-2023Q3, while its total capitalization increased from 46.1% to 53.9% over the same period. Furthermore, LSAM has weak asset liquidity. The Company's total asset mainly consists of inventories and non-current assets, which accounted for 79.7% of its total asset as of 30 September 2023.

**Medium exposure to contingent risks.** LSAM has medium exposure to contingent risks due to its relatively large amount of external guarantee. As of 30 September 2023, its external guarantee amount was RMB3.5 billion, accounting for 23.4% of its net asset. All of the external guarantees are provided to state-owned enterprises in Longyou County.

### Rating Outlook

The stable outlook on LSAM's rating reflects our expectation that Longyou County Government's capacity to provide support will remain stable, and the Company will maintain its important strategic role in infrastructure construction from the local government over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Longyou County 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 expansion of its policy role, material decrease in external guarantees, or improved debt management.

#### What could downgrade the rating?

The rating could be downgraded if (1) Longyou County Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in importance of its policy role, material decrease in government payments, 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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