

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Feixi County Rural Revitalization Investment Group Co., Ltd., with stable outlook.**

Hong Kong, 30 April 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub> to Feixi County Rural Revitalization Investment Group Co., Ltd. (“FRIC” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of FRIC reflects Feixi County Government’ strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Feixi County Government’s capacity to provide support reflects Feixi County’s relatively good comprehensive strength, with fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position as the main rural infrastructure construction platform in Feixi County; (2) good sustainability of public policy businesses; and (3) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) moderate access to funding channels with limited financial flexibility; (2) rapid debt growth driven by large investment needs; and (3) weak asset liquidity.

### **Corporate Profile**

Established in 2018, FRIC, formerly known as Feixi County Rural Revitalization Construction and Development Co., Ltd. became one of the key local infrastructure investment and financing Companies (“LIIFCs”) in Feixi County after equity transfer and capital increase since 2020. The Company is mainly responsible for rural infrastructure construction and resettlement housing construction in Feixi County. It also engages in several commercial activities, including sanitation, property leasing, landscaping, property management and self-operated project construction. As the end of 2023, the State-owned Assets Supervision and Administration Commission of Feixi County People’s Government (“Feixi SASAC”) was the ultimate controller of the Company, holding 100% stakes of the Company.

### **Rating Rationale**

#### **Credit Strengths**

#### **Important position as the main rural infrastructure construction platform in Feixi County.**

As one of the key infrastructure construction entities in Feixi County, FRIC plays a vital role in public policy businesses in the region. Entrusted by the Feixi County Government, the Company undertakes the construction of rural infrastructure and resettlement housing within Feixi County with strong regional franchise advantages, which provide significant strategic importance for the local government and benefits to the local social and economic development. Considering its strategic importance in undertaking public policy projects in Feixi County, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Good sustainability of public policy businesses.** As at the end of 2023, the Company had completed 9 key infrastructure construction projects with a total investment of RMB0.6 billion. From the perspective of project reserves, the Company had 27 infrastructure construction and resettlement housing construction projects under construction at end-2023, with a total planned investment of RMB14.6 billion and an uninvested amount of RMB7.6 billion. Furthermore, the Company had 13 projects under planning with an outstanding investment amount of RMB3.1 billion. We believe FRIC's large pipeline of public policy projects assigned by the government demonstrated its leading position in the development of Feixi County.

**Solid track record of receiving government payments.** In recognition of the importance of public activities in Feixi County, FRIC has received recurring financial support, including financial subsidies, asset and capital injection from the Feixi County Government. Given FRIC's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

#### Credit Challenges

**Moderate access to funding channels with limited financial flexibility.** As the end of 2023, around 80.8% of the Company's debt financing was provided by domestic banks with total credit facilities of RMB10.7 billion and available credit facilities of RMB8.2 billion. Meanwhile, the Company's exposure to non-standard financing, mainly financial leasing, is relatively high, accounting for around 19.2% of total debt at end-2023. We expect the Company will continue to broaden its financing channels by increasing credit facilities and issuing onshore and offshore bonds.

**Rapid debt growth driven by large investment needs.** The Company's total debt had increased to RMB2.2 billion at end-2023, with reasonable total capitalization ratio of 33.8%. However, the Company's investment needs for infrastructure consolidation and resettlement housing construction projects are expected to maintain at a relatively high level. Therefore, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

**Weak asset liquidity.** The Company's total asset mainly consists of inventories and account receivables, which accounted for 62.2% of its total assets at end-2023. Inventories were mainly investment costs for infrastructure construction projects and resettlement housing construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

#### Rating Outlook

The stable outlook on FRIC's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its dominant position in the rural infrastructure and resettlement housing development in Feixi County.

#### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's



willingness to provide support, such as enhanced regional significance and improved financing channels.

### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and increase 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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