

## **CCXAP upgrades Quzhou Qutong Development Group Co., Ltd.'s long-term credit rating to A<sub>g</sub>-, with stable outlook.**

Hong Kong, 30 April 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Quzhou Qutong Development Group Co., Ltd. (“QQDG” or the “Company”) to A<sub>g</sub>- from BBB<sub>g</sub>+, with stable outlook.

The A<sub>g</sub>- long-term credit rating of QQDG reflects the enhancing regional fiscal metrics of Quzhou City, which strengthens the local government’s capacity to support the Company. It also reflects the important position of the Company as a crucial transportation infrastructure construction entity in Quzhou City.

The long-term credit rating of QQDG reflects (1) Quzhou Municipal Government’s very strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Quzhou Municipal Government’s capacity to provide support reflects Quzhou City’s status as a prefecture-level city in Zhejiang Province, with relatively 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 strategic role as the transportation infrastructure construction entity in Quzhou City; (2) good access to funding; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) moderate debt management and moderate asset liquidity.

### **Corporate Profile**

Founded in 2002, QQDG, formerly known as Quzhou Communications Investment Group Co., Ltd., is an important local infrastructure investment and financing company (“LIIFC”) for major transportation infrastructure projects in Quzhou City. It is primarily engaged in transportation construction and operation, as well as power generation. The Company also undertakes commercial activities such as sales of construction materials and property development. As of 30 September 2023, the Company was wholly owned by Quzhou State-owned Assets Operation Co., Ltd. (“QSAO”), which directly held 51% of the Company’s stakes and indirectly held the remaining 49% through its subsidiary Quzhou Holding Group Co., Ltd. Its ultimate controlling owner is the State-owned Assets Supervision and Administration Commission of Quzhou Municipal Government (“Quzhou SASAC”).

### **Rating Rationale**

#### **Credit Strengths**

**Important strategic role as the transportation infrastructure construction entity in Quzhou City.** The Company has continued to play an important role in the implementation of infrastructure construction and urban development policies in Quzhou City, and has

successfully completed major provincial construction projects. Given its important strategic market position and distinguished role from other state-owned enterprises, we believe that the Company is unlikely to be replaced in the foreseeable future

**Good access to funding.** We consider QQDG's access to funding to be good, given its strong banking relationships and access to the bond market. As of 30 September 2023, banks loans and bonds accounted for about 84.1% of the Company's total debt, while non-standard financing and shareholder loans accounted for the remaining 15.9%.

**Good track record of receiving government payments.** QQDG has received continuous support from the local government, including capital injections, asset transfers, project grants, and financial subsidies. Overall, given the Company's important position and its contribution to regional economic development, we believe QQDG will continue to receive support from the government.

### Credit Challenges

**Medium exposure to commercial activities.** QQDG is also engaged in commercial activities such as self-operated project construction, engineer construction, commodity trading, building materials sales, and property development businesses. Although the Company's commercial activities account for a relatively high proportion, accounting for about 30% of its total assets, we consider the commercial business risks to be manageable, given that most of the commercial activities has low business risks and the local government has provided financial support to some of the self-operated projects.

**Moderate debt management and moderate asset liquidity.** QQDG has moderate debt management, as reflected by its rapid debt growth and modest debt structure. Its total debt increased from RMB14.9 billion at end-2022 to RMB16.9 billion at end-2023Q3, and its total capitalization ratio, measured as a ratio of total debt to total capital, slightly increased from 45.8% to 46.7% over the same period. Furthermore, the Company's asset liquidity is moderate as its total assets mainly consist of assets with low liquidity

### Rating Outlook

The stable outlook on QQDG's rating reflects our expectation that Quzhou Municipal Government's capacity to provide support will remain stable, and the Company will maintain its important strategic role in transportation infrastructure construction in Quzhou City over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Quzhou Municipal 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 strengthened market position, material reduction in commercial business exposure, or improved debt management.

#### What could downgrade the rating?



The rating could be downgraded if (1) Quzhou Municipal 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 weakened market position, 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**

CCXAP's Rating Symbols and Definitions are available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/6/](http://www.ccxap.com/en/rating_services/category/6/)

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/9/](http://www.ccxap.com/en/rating_services/category/9/)

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at [www.ccxap.com](http://www.ccxap.com) (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Jonathan Kwong  
*Credit Analyst*  
+852-2860 7132  
[Jonathan\\_kwong@ccxap.com](mailto:Jonathan_kwong@ccxap.com)

Elle Hu  
*Executive Director of Credit Ratings*  
+852-2860 7120  
[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656