

CCXAP assigns first-time long-term credit rating of BBB_g+ to Xiangtan Urban & Rural Construction Development Group Co., Ltd., with stable outlook.

Hong Kong, 24 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Xiangtan Urban & Rural Construction Development Group Co., Ltd. (“XCDG” or the “Company”) with stable outlook.

The BBB_g+ long-term credit rating of XCDG reflects Xiangtan Municipal Government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Xiangtan Municipal Government’s capacity to provide support reflects Xiangtan City’s key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth. However, it is also constrained by heavy regional debt burden caused by excessive financing for infrastructure construction in the past years, which is partially mitigated by China’s measures to resolve hidden government debt in the short term.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) leading position in infrastructure construction and land development of Xiangtan City; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) weak asset liquidity; and (2) moderate exposure to contingent liabilities.

Corporate Profile

Established in 2012, XCDG is the major local infrastructure investment and financing company (“LIIFC”) in Xiangtan City, primarily focusing on infrastructure construction and primary land development as well as state-owned assets operation and management. In addition, the Company is also engaged in commercial activities such as commodity sales and engineering construction businesses. As of 31 December 2023, XCDG was 90% owned by State-owned Assets Supervision and Administration Commission of Xiangtan Municipal Government (“Xiangtan SASAC”), and Hunan State-owned Investment and Operation Co., Ltd. held the remaining 10%. Xiangtan SASAC is the ultimate controlling shareholder of the Company.

Rating Rationale

Credit Strengths

Leading position in infrastructure construction and land development of Xiangtan City.

As the most important LIIFC with the largest assets size in Xiangtan City, XCDG is designated by the Xiangtan Municipal Government to implement the blueprint for the urbanization and development of Xiangtan City. The Company plays a key role in promoting the economic and social development of Xiangtan City, undertaking a wide variety of public policy projects within Xiangtan City, including the construction of important roads, bridges as well as sewage treatment facilities in Xiangtan City. The Company is undertaking a large amount of infrastructure construction projects in Xiangtan City, ensuring its business sustainability.

Good track record of receiving government support. As the important infrastructure construction entity in Xiangtan City, XCDG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Since 2020, the local government has transferred land assets and equity interests of state-owned enterprises to the Company, significantly increasing its capital reserves and expanding its business scope.

Credit Challenges

Weak asset liquidity. XCDG's asset liquidity is weak, which may undermine its financing flexibility. As of 31 December 2023, the Company's total asset mainly consisted of inventories and other receivables, accounting for 71.4% of its total asset.

Moderate exposure to contingent liabilities. XCDG's external guarantee exposure is moderate. As of 31 December 2023, its external guarantee amount was RMB3.9 billion, accounting for 12.5% of its total equity. Most external guarantees of the Company are provided to state-owned enterprises in Xiangtan City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on XCDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its leading position in the development of Xiangtan City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in exposure to contingent liabilities.

What could downgrade the rating? The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

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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