
CCXAP upgrades Changxing Urban Construction Investment Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 29 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Changxing Urban Construction Investment Group Co., Ltd. (“CUCI” or the “Company”) to BBB_g+ from BBB_g, with stable outlook. At the same time, CCXAP has upgraded its senior unsecured debt rating to BBB_g+

The rating upgrade is based on the improving regional strength of Changxing County, which strengthens the local government’s capacity to support the Company. It also reflects the Company’s strong position in undertaking infrastructure construction and public services in Changxing County.

The BBB_g+ long-term credit rating of CUCI reflects (1) Changxing County Government’s strong capacity to support, and (2) the local government’s extremely high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Changxing County Government’s capacity to support reflects its ranking of 55th among the Top 100 Counties in China in 2023, with good economic strength and moderate fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong position in undertaking infrastructure construction and public services in Changxing County; (2) access to diversified funding channels; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) increasing operating risks arising from diversified business segments; (2) medium contingent liability risk from external guarantees provided to other local SOEs; and (3) relatively high debt leverage and moderate asset liquidity.

Corporate Profile

CUCI, formerly known as Changxing Urban Construction Co., Ltd., was established on 21 December 2007, CUCI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Changxing County, Huzhou City. The Company mainly engages in trading, infrastructure construction, property development, primary land consolidation and city operations, including water supply, assets leasing and car park operation in Changxing County. As of 31 March 2024, the State-owned Assets Supervision and Administration Office of Changxing County People’s Government (“Changxing SASAO”) and Zhejiang Changxing Financial Holdings Group Co., Ltd. held 69.6% and 26.1% of the Company’s shares, respectively, while Zhejiang Province Financial Development Co., Ltd. held the remaining 4.3%. Changxing SASAO is the ultimate controller of the Company.

Rating Rationale

Credit Strengths

Strong position in undertaking infrastructure construction and public services in Changxing County. There are four major LIIFCs to support the development and operation of Changxing County. Each has a clear position under the local government’s planning. Among

them, CUCI is one of the most important investment and construction entity in Changxing County and has mainly undertaken public activities such as infrastructure construction, primary land consolidation, and water supply. Given the Company's strong position in local development and the high sustainability of its public services, we believe the Company is unlikely to be replaced by other entities in the foreseeable future.

Good track record of receiving ongoing government payments. The local government provides strong support, in terms of capital injection, assets injection and financial subsidies, to the Company to support its business development and enhance its assets. Given CUCI's important role in the development of Changxing County, we expect the local government will continue to provide ongoing support to the Company.

Access to diversified funding channels. The Company's large investment needs can be mitigated by its diversified financing channels. The Company has access to various sources of funding, including bank loans, onshore and offshore bond financing and non-standard financing. As of end-2023, the Company had total credit facilities of RMB29.6 billion, of which the unutilized amount was about RMB7.8 billion.

Credit Challenges

Increasing operating risks arising from diversified business segments. Apart from the primary business segments, CUCI has also diversified into other market-oriented businesses since 2017, such as trading, property development, and sandstone mining. Overall, the proportion of commercial business assets is around 25% of the Company's total assets, indicating that the overall commercial business risk is moderate. We also expect that the diversified business layout can enrich its income source. However, some of these businesses such as property development are affected by the downturn of China's property market, which may adversely affect the Company's profitability.

Relatively high debt leverage and moderate asset liquidity. The Company's total debt continued to increase due to ongoing investment needs. From 2022 to 2023, the Company's total debt increased from RMB36.6 billion to RMB40.8 billion, and its total capitalization ratio was at a relatively high level of around 55.6% at the end of 2023. The Company's asset liquidity is moderate as they are mainly inventories with weak liquidity. As of 31 March 2024, the inventories amounted to RMB34.5 billion, accounting for 43.0% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects.

Medium contingent liability risk from external guarantees provided to other SOEs. The Company is exposed to a medium contingent liabilities risk. At the end of 2023, the Company recorded an external guarantee amount of RMB9.4 billion, accounting for 28.9% of its total equity. Those guaranteed entities are the state-owned enterprises ("SOE") in Changxing County, without counter-guarantee measures. The credit risk of the Company and other local SOEs might be heightened if one guaranteed entity suffers from credit issues.

Rating Outlook

The stable outlook on CUCI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in the public welfare functions in Changxing County.

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 improvement in debt management or assets quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 its strategic significance; decrease in government payments; or increase in 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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