

## CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Changde Economic Construction Investment Group Co., Ltd, with stable outlook

Hong Kong, 31 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>+ to Changde Economic Construction Investment Group Co., Ltd. (“CECI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of Changde Economic Construction Investment Group Co., Ltd. (“CECI” or the “Company”) reflects Changde Municipal Government’s (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Changde Municipal Government’s capacity to provide support reflects Changde City’s economic and fiscal importance in Hunan Province, with ongoing economic growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position in urban development and construction of Changde City; (2) key role in public services essential to the social welfare and economic development of Changde City; and (3) good track of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) fast debt growth due to large capital expenditure pressure; and (3) moderate exposure to contingent liabilities.

### Corporate Profile

Established in 1992, CECI is one of the key local infrastructure investment and financing companies (“LIIFC”) in Changde City and has played a key role in the construction and development of major infrastructure in Changde. The Company is mainly engaged in infrastructure construction, sewage treatment and public transportation in Changde City. It is also participated in commercial activities such as real estate development and medical services. As of 31 December 2023, the Company was 90% owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Changde Municipal Government (“Changde SASAC”). Hunan State Owned Investment Management Co., Ltd holds the remaining 10% of the Company’s shares.

### Rating Rationale

#### Credit Strengths

**Important position in urban development and construction of Changde City.** There are four key LIIFCs in Changde City, each responsible for the development of different area in Changde City without overlapping. The Company is an important LIIFC with the second largest assets size in Changde City, and mainly responsible for the infrastructure construction projects in the eastern part of Wuling Avenue in Changde City. Considering that CECI has strong regional importance in Changde City, we believe that the Company will remain its role as an important urban development and construction entity in Changde City and will not be easily replaced by other state-owned enterprises in the foreseeable future.



**Key role in public services essential to the social welfare and economic development of Changde City.** CECI undertakes infrastructure construction projects under agency construction model. The Company conducts infrastructure construction projects by signing agency construction agreements with the local government, which will settle with the Company based on the project investment amount plus 18% markup upon project completion. Authorized by Changde Municipal Government, CECI has been conducting shantytown renovation projects in Changde City through its subsidiaries.

**Good track of receiving government support.** CECI has regularly received support from the local government in the form of special fund, government purchase, operating subsidy and capital injection. Undertaking key projects in the region, the Company has received ongoing special fund from the government of totally RMB6.2 billion as of end-2023. Besides, the Company has also received government payments for urban infrastructure construction projects of RMB8.7 billion. Furthermore, the Company also receives operating subsidy from the local government, totaling RMB2.5 billion from 2021 to 2023. Given its status as important urban development and construction entity in Changde City, we believe that the local government will continue to provide support to the Company.

#### Credit Challenges

**Medium exposure to commercial activities.** In addition to public activities, CECI is also engaged in commercial businesses, including sale of commercial properties and medical products. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% of its total assets. However, commercial risk is moderate since property sales business is greatly affected by the changes in regional property market.

**Fast debt growth due to large capital expenditure pressure.** CECI has a relatively fast debt growth over the past three years. The Company's total debt had increased from RMB48.0 billion at end-2021 to RMB51.2 billion at end-2023, with total capitalization ratio at relatively high level of 54.7%. The increase in debt is mainly attributable to the ongoing external financing for infrastructure construction projects.

**Moderate exposure to contingent liabilities.** CECI's external guarantee exposure is moderate. As of 31 December 2023, its external guarantee amount was RMB8.7 billion, accounting for 20.5% of its total equity. Most external guarantees of the Company are provided to state-owned enterprises in Changde 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 CECI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its status as important urban development and construction entity in Changde.

### 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 strengthened regional significance or reduction in the exposure to commercial activities.

### 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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