

## **CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Fuqing City State-owned Asset Operation & Investment Co., Ltd, with stable outlook**

Hong Kong, 17 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A<sub>g</sub>- to Fuqing City State-owned Asset Operation & Investment Co., Ltd. (“FSAO” or the “Company”), with stable outlook.

The A<sub>g</sub>- long-term credit rating of Fuqing City State-owned Asset Operation & Investment Co., Ltd. (“FSAO” or the “Company”) reflects Fuqing County Government’s (1) very 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 Fuqing City Government’s capacity to provide support reflects its economic importance in Fuzhou City and its status as the top 100 Chinese counties/cities in terms of comprehensive development, with strong comprehensive strength, ongoing economic growth, and good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the most important entity for infrastructure construction and state-owned assets operation in Fuqing City; (2) good track record of receiving government support; and (3) diversified funding channels. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) fast debt growth and weak asset liquidity.

### **Corporate Profile**

Established in 1998, FSAO is the most important local infrastructure investment and financing companies (“LIIFCs”) in Fuqing City. The Company is mainly engaged in infrastructure construction, resettlement housing construction, public transport operation, industrial parks development, and water supply in Fuqing City. Apart from its main business, the Company is also engaged in other commercial businesses, such as trading, security services, environmental sanitation, and property leasing. As of 31 December 2023, the Company was wholly owned and ultimately controlled by Finance Bureau of Fuqing City.

### **Rating Rationale**

#### **Credit Strengths**

**Status as the most important entity for infrastructure construction and state-owned assets operation in Fuqing City.** FSAO is the most important infrastructure construction and state-owned assets operation entity in Fuqing City, conducting infrastructure construction, resettlement housing projects, water supply, public transportation operation in Fuqing City. Considering its strategic significance to the development of Fuqing City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future. In addition, the large amounts of construction projects in the pipeline from these public policy businesses, ensuring the sustainability of public policy business, but exerting high capital expenditure pressure.

**Good track record of receiving government support.** FSAO has regularly received support from the local government in the form of capital injection, government subsidies and assets transfer. Given its status as the most important entity for infrastructure construction and state-owned assets operation in Fuqing City, we believe that the local government will continue to provide support to the Company.

**Diversified funding channels.** FSAO has good access to funding from banks and capital markets, with bank loans and bond financing accounting for 61.1% and 32.7% of the total debt respectively as of 31 December 2023. Besides, FSAO also plans to issue offshore bonds to expand its funding channels. In addition, FSAO has low exposure to non-standard financing, which accounted for 6.1% of its total debts at end-2023.

### **Credit Challenges**

**Medium exposure to commercial activities.** In addition to public activities, FSAO is also engaged in commercial businesses, mainly including trading and property leasing. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 20% of its total assets.

**Fast debt growth and weak asset liquidity.** FSAO has fast debt growth over the past three years. The Company's total debt had increased from RMB4.0 billion at end-2021 to RMB14.8 billion at end-2023, with total capitalization ratio increasing from 17.0% to 39.3% over the same period. The increase in debt is mainly attributable to the ongoing external financing for the infrastructure construction, resettlement housing and industrial park development projects. The Company's assets mainly consist of inventories, receivables, and other non-current assets, all with relatively low liquidity.

### **Rating Outlook**

The stable outlook on FSAO'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 the most important entity for infrastructure construction and state-owned assets operation in Fuqing City.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as a decrease in 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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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



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**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