

CCXAP affirms Xinchang Urban Construction Investment Group Co., Ltd.'s BBB_g long-term credit rating, with stable outlook.

Hong Kong, 18 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Xinchang Urban Construction Investment Group Co., Ltd. (“XUCI” or the “Company”) at BBB_g, with stable outlook

The BBB_g long-term credit rating of XUCI reflects (1) Xinchang County Government’s 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 Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability, ranking one of the Top 100 Counties in China.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic role in the infrastructure construction and utility services in Xinchang County; and (2) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

Corporate Profile

Established in 2016, XUCI is one of the key subsidiaries of Zhejiang Xinchang Investment Development Co., Ltd. (“ZXID”). It plays an important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment. Besides, the Company also engages in some commercial activities such as engineering construction, material trading, car parking services and property leasing. In September 2023, ZXID transferred all its stake in the Company to Xinchang County City Construction Holdings Group Co., Ltd. (“XCCH”). As of 31 December 2023, the Company was wholly owned by XCCH and ultimately controlled by the State-owned Assets Supervision and Administration Commission Office of the People’s Government of Xinchang County (“Xinchang SASAC”).

Rating Rationale

Credit Strengths

Important strategic role in the infrastructure construction and utility services in Xinchang County. XUCI is one of the major subsidiaries of ZXID, responsible for various public-related activities such as infrastructure construction, land consolidation, water supply and sewage treatment. It has completed various significant infrastructure projects in Xinchang County. Given its important strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Good track record of receiving government payments. XUCI has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and cash injection. Overall, given the



Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

Good access to funding. XUCI has good access to funding as reflected by its good banking relationships and access to debt capital markets, with bank loans accounting for about 62.9% and bonds accounting for about 33.7% of total debt at end-2023. Additionally, the exposure to non-standard financing is low, accounting for around 3.4% of total debt.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, XUCI is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider XUCI's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets.

High debt leverage and moderate asset quality. With ongoing financing for its construction projects in recent years, XUCI has demonstrated a rapid debt growth and high debt leverage over the past year. The Company's total debt increased from RMB29.6 billion at end-2022 to RMB34.9 billion at end-2023, while its total capitalization maintained at around 57.6%. XUCI has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2023, the Company's total asset mainly consisted of inventories and non-current assets, which totally accounted for 84.5% of its total asset.

Medium contingent risks arising from external guarantees. The Company bears certain contingent risks arising from the external guarantee, most of which are provided to local state-owned enterprises ("SOEs"). As of 31 December 2023, the Company had outstanding external guarantees of RMB6.5 billion, representing 25.4% of its net assets.

Rating Outlook

The stable outlook on XUCI's rating reflects our expectation that Xinchang County Government's capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County 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 material decrease in exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang County 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 decrease in its importance, 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/

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/

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 (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

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656