

CCXAP affirms Nan'an Development Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 12 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Nan'an Development Investment Group Co., Ltd.'s (“NDIG” or the “Company”) long-term credit rating at BBB_g, with stable outlook.

The BBB_g long-term credit rating of NDIG reflects (1) Nan'an City 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 Nan'an City Government's capacity to support reflects the Nan'an City's good comprehensive strength, ongoing economic and fiscal growth, and good fiscal self-sufficiency.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important policy role as the largest state-owned enterprise in Nan'an City; (2) high sustainability of infrastructure construction business; and (3) track record of receiving government support. However, the rating is constrained by the Company's (1) medium exposure to commercial business activities; (2) rapid debt growth and moderate asset liquidity; and (3) medium exposure to contingent risks.

Corporate Profile

Founded in 2009 by the integration of Nan'an Energy Industry and Trade Investment Development Group Co., Ltd (“NEIT”) and two grain storage and sale enterprises, NDIG is an important local infrastructure investment and financing company (“LIIFC”) in Nan'an City with the largest asset size. It plays an important public role in infrastructure and resettlement housing construction, water supply, hydroelectric power generation, and grain storage. The Company also engages in some commercial activities such as trading, construction of self-operated projects, property leasing, medical sales, and financing guarantee. As of 31 March 2024, the Company was wholly owned and ultimately controlled by Nan'an City State-owned Assets Supervision and Administration Commission (“Nan'an SASAC”), with registered capital of RMB5.0 billion.

Rating Rationale

Credit Strengths

Important policy role as the largest state-owned enterprise in Nan'an City. There are three main LIIFCs in Nan'an City, each with clear positioning in the development of the city. NDIG is the largest LIIFC by total assets in Nan'an City, mainly responsible for urban development and state-owned assets operation in Nan'an City. Considering the Company's high strategic significance to the development of Nan'an City, we believe that it will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of infrastructure construction business. NDIG is entrusted by the local government to undertake the infrastructure and resettlement housing construction. The



Company had successfully delivered a series of large-scale infrastructure construction and resettlement housing projects over the past few years. We expect that the considerable projects in the pipelines can ensure the sustainability of the infrastructure construction business, but exert large capital expenditure pressure to the Company.

Track record of receiving government support. As the most important state-owned enterprise in Nan'an City, NDIG has a track record of receiving payments from the Nan'an government. These payments take various forms, such as government subsidies, capital injections, and equity transfers. In 2023, the Company received the financial subsidy of RMB156.5 million and tax deduction package of RMB644.8 thousand. Overall, given its important position and contribution to regional economic development, we believe that NDIG will receive ongoing government support to support its business operations.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, NDIG is also involved in various commercial activities such as domestic and international trading, construction of self-operated projects, and medical sales, lease of properties, and financing guarantee. We consider NDIG's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets.

Rapid debt growth and moderate asset liquidity. With ongoing financing for its construction projects in recent years, NDIG demonstrates a rapid debt growth. We expect that, given its large future capital needs, the Company will maintain a relatively fast debt growth in the next 12 to 18 months. Furthermore, NDIG has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories and receivables, which accounted for around 62% of its total asset as of end-2023, all of which are considered low liquidity.

Medium exposure to contingent risks. NDIG has medium exposure to contingent risks due to its relatively large amount of external guarantees. As of 31 March 2024, its external guarantee amounted to RMB4.6 billion, accounting for 34.7% of its net asset. Most of the external guarantees are provided to state-owned enterprises in Nan'an City, which have low default risk. However, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

Rating Outlook

The stable outlook on NDIG's rating reflects our expectation that Nan'an City Government's capacity to provide support will remain stable, and the Company will maintain its important public role in urban development and service operation in urban and rural areas of Nan'an City over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Nan'an City 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 material decrease in external guarantees, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Nan'an City 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 importance of its policy role, 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

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