

Credit Opinion

7 June 2023

Ratings	
Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Peter Chong +852-2860 7124
Senior Analyst
peter_chong@ccxap.com

Jonathan Kwong +852-2860 7132
Assistant Analyst
jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Nan'an Development Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Nan'an Development Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Nan'an Development Investment Group Co., Ltd. ("NDIG" or the "Company") reflects (1) Nan'an City Government's strong capacity to provide support; and (2) the local government's extremely 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.

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 infrastructure construction in Nan'an City over the next 12 to 18 months.

Rating Drivers

- Important policy role as the largest state-owned enterprise in Nan'an City
- High sustainability of infrastructure construction business
- Medium exposure to commercial activities
- Track record of receiving government support
- Rapid debt growth and moderate asset liquidity
- Medium exposure to contingent risks

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	22.7	23.0	27.6
Total Equity (RMB billion)	11.4	11.5	12.5
Total Revenue (RMB billion)	2.3	3.7	4.5
Total Debt/Total Capital (%)	39.0	45.1	48.5

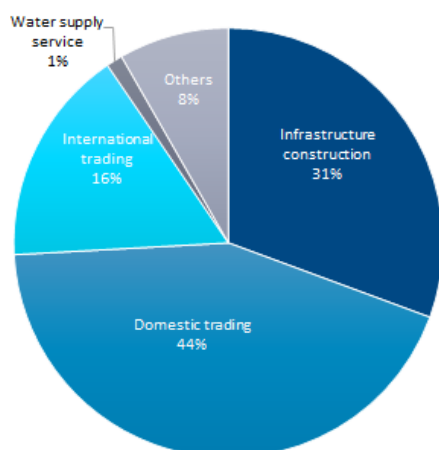
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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 the most 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 domestic and international trading, construction of self-operated projects, property leasing, medical sales, and financing guarantee. As of 31 December 2022, the Company was wholly owned and ultimately controlled by Nan'an City State-owned Assets Supervision and Administration Commission ("Nan'an City SASAC"), with registered capital of RMB5.0 billion.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 31 December 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Nan'an City Government has a strong capacity to provide support given its good comprehensive strength, ongoing economic and fiscal growth, and good fiscal self-sufficiency.

Located in the southeast of Fujian Province, Quanzhou City connects Putian and Fuzhou in the north and Xiamen in the south. It is one of the "reforms and opening-up" area in China. The pillar industries in Quanzhou City include Textiles, petrochemicals, machinery and equipment, building materials and home furnishing. With the ongoing industrial development, the economic strength of Quanzhou City has continuously grown. In 2022, the GRP of Quanzhou City increased by 3.5% year-on-year ("YoY") to RMB121.0 billion, ranking 2nd among 9 prefecture-level cities in Fujian Province. Quanzhou Municipal Government recorded a public budgetary revenue of RMB52.7 billion, of which tax revenue accounted for 64.5%. However, its fiscal balance is moderate with general budgetary revenue/general budgetary expenditure ratio of 65.4%. Its debt burden is relatively heavy.

In 2022, the local government's outstanding debt grew to RMB211.2 billion, accounting for 17.5% of GRP and 194.3% of its total fiscal income.

Exhibit 3. Key economic and fiscal indicators of Quanzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1015.9	1130.4	1210.3
GRP Growth (%)	2.9	8.1	3.5
General Budgetary Revenue (RMB billion)	45.4	50.5	52.7
General Budgetary Expenditure (RMB billion)	71.5	67.2	80.6
Local Government Debt (RMB billion)	154.8	186.6	211.3

Source: Statistic Bureau of Quanzhou City, CCXAP research

Nan'an City is a county-level city under Quanzhou City, and is an important node of the southeast coastal passage in Fujian. In 2022, Nan'an City ranks 33th by comprehensive strength among the top 100 counties (including county-level cities) in China. Nan'an is also the largest stone production and export base in China, accounting for more than 40% of the country's stone production. Relying on its pillar industries of plumbing equipment and stone production, Nan'an City has sustained economic growth in recent years. From 2020 to 2022, the GRP of Nan'an City increased from RMB135.3 billion to RMB164.6 billion. The general budgetary revenue of Nan'an City also increased from RMB5.3 billion to RMB6.5 billion during the same period, with tax contribution of 81.1% on average. Nan'an City has a good fiscal self-sufficiency, with a fiscal balance ratio of 75.4% in 2022. In addition, Nan'an City has a manageable debt burden. In 2022, Nan'an City recorded an outstanding debt of RMB21.3 billion, accounting for 12.9% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Nan'an City

	2020FY	2021FY	2022FY
GRP (RMB billion)	135.3	153.6	164.6
GRP Growth (%)	4.8	9.8	3.7
General Budgetary Revenue (RMB billion)	5.3	5.9	6.5
General Budgetary Expenditure (RMB billion)	9.0	9.3	8.6
Local Government Debt (RMB billion)	17.9	19.7	21.3

Source: Statistic Bureau of Nan'an City, CCXAP research

Government's Willingness to Provide Support

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 and the most important LIIFC by total assets in Nan'an City, mainly responsible for urban development and state-owned assets operation in Nan'an City. The other two LIIFCs include Quanzhou Nanyi Investment Group Co., Ltd. ("Nanyi"), which is responsible for infrastructure construction in Nan'an City and Nan'an Branch of Quanzhou Semiconductor High-tech Industrial Park, and Nan'an Park Development and Construction Group Co., Ltd. ("NPDC"), which is responsible for construction and operation of various industrial parks in Nan'an City. The Company is mandated by the local government to undertake local public activities, such as infrastructure construction, resettlement housing construction, water supply, sewage treatment, and hydroelectric power generation. 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, with large capital expenditure pressure

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 and resettlement housing projects over the past few years. The Company will carry out the construction mainly by self-raised funds after signing agency construction agreements with the local government and state-owned enterprises. The entrusting parties would repurchase the projects upon completion of construction, with a total payment of the construction cost plus an agreed return. However, the payment collection for the infrastructure and resettlement housing projects is lag behind, which may undermine the Company's liquidity. Furthermore, the sustainability of resettlement housing business is low as there is one project under construction and no project under planning. As of 31 December 2022, the Company had 13 infrastructure construction projects under construction or planning, with a total investment of RMB15.8 billion and an uninvested amount of RMB14.7 billion. 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.

NDIG provides water supply service to a population of 350,000 in Nan'an City via its pipe networks of 760 kilometers. The Company currently assumes the function to integrate the water supply companies in urban and rural areas, and has undertaken several construction projects with costs partly funded by government subsidies and special funds. As of 31 December 2022, the Company had 5 water supply projects under construction, with an expected total investment of RMB3.9 billion and an uninvested amount of RMB3.2 billion. The Company also participates in hydroelectric power generation business in Nan'an City, with 5 hydroelectric power stations.

In addition, the Company is the sole grain storage and security services provider in Nan'an City, with stable operation. Due to the public welfare nature of grain storage business, the local government provides subsidies to support its operation.

Exhibit 5. Projects under Construction or Planning as of 31 December 2022

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
Projects Under Construction				
Infrastructure Construction	8	4,146	1,106	3,040
Resettlement Housing	1	978	1,183	-
Water Supply	5	3,934	708	3,226
Projects Under Planning				
Infrastructure Construction	5	11,655	-	11,655
Total	19	20,713	2,997	17,921

Source: CCXAP research

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.

At present, NDIG are constructing several self-operated projects, such as industrial park, commercial housing, and berth, which can generate operating income upon completion of construction, such as parking fee, property

sales revenue, and loading fee. However, the Company constructs these projects mainly with self-raised funds, exerting certain capital expenditure pressure. As of 30 December 2022, the Company had 5 major self-operated projects under construction, with a total estimated investment of RMB6.7 billion and an uninvested amount of RMB5.4 billion.

NDIG also participates in domestic and international trading business under demand-driven model. Its international trading business mainly involves trading of clothing, while domestic trading business mainly chemical products. However, the suppliers and customers of the domestic and international trading business are relatively concentrated, and the settlement period for the customers usually lasts for two to six months, causing certain capital occupation. In addition, the international trading business is subject to geopolitical risk and foreign exchange risk, and reported a loss in 2022 due to exchange rate fluctuations and trade conflict.

In addition, the Company also participates in diversified businesses such as medical sales, property leasing, and financing guarantee. Although their business scale is relatively small, they provide supplemental income 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. The local government transferred 55% equity interests of Nan'an Transportation Group Co., Ltd. in 2020, and injected capital of RMB500 million in 2022 to the Company, significantly enhancing its capital strength and broadening its business mix. From 2020 to 2022, the local government has provided total subsidies of RMB1.2 billion to the Company. 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.

Exhibit 6. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	356	411	402
Capital Injections	-	-	500
Equity Transfer	859	-	-
Total	1,215	411	902

Source: CCXAP research

Rapid debt growth and moderate asset liquidity

With ongoing financing for its construction projects in recent years, NDIG demonstrates a rapid debt growth. The Company's total debt increased from RMB7.3 billion at end-2020 to RMB11.8 billion at end-2022, with total capitalization of 48.5%. Nevertheless, the Company has a reasonable debt structure, with short term debt accounting for 32.7% of total debt at end-2022. 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 66.4% of its total asset as of 31 December 2022. The inventories are mainly investment costs for infrastructure construction and resettlement housing projects, while the receivables are mainly unreceived payments from the local government or counterparties from trading business, all of which are considered low liquidity.

Good access to funding

NDIG has good access to funding as reflected by its good banking relationships and access to the onshore debt capital market. Bank loans are the main financing channel of the Company, accounting for about 55% of its total debt. As of 31 December 2022, it has sufficient standby liquidity, with total credit facilities of RMB9.1 billion and available credit facilities of RMB2.9 billion granted by large domestic commercial and policy banks.

The Company has a track record of fund-raising activities in onshore debt capital market, including issuance of MTNs, SCPs, PPNs, and private corporate bonds. The Company and NEIT have raised about RMB7.7 billion in onshore debt market from 2019 to 2022. It has also obtained bond issuance approval of RMB3.0 billion, and plans to issue offshore bonds to broaden its financing channel. However, a relatively large amount of bond financing may make the Company vulnerable to the fluctuations of capital market. Additionally, the Company has low reliance on non-standard financing.

Medium exposure to contingent risks

NDIG has medium exposure to contingent risks due to its relatively large amount of external guarantees. As of 31 December 2022, its external guarantee amounted to RMB4.7 billion, accounting for 37.7% of its net asset. All the external guarantees are provided to state-owned enterprises in Nan'an City and Quanzhou 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.

ESG Considerations

NDIG bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Quzhou City. Demographic changes, public awareness and social priorities shape government's target for NDIG, or affect the government's propensity to support the Company.

NDIG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

We did not notch NDIG's senior unsecured debts rating for structural subordination, reflecting our expectation that in the event of financial distress, the government will likely provide support to the Company as the holding company, thereby increasing the recovery prospects for the holding company's creditors. We also see that the structural subordination risk is mitigated by the strategic importance of NDIG's infrastructure and public facility assets, thus we expect that government support will be provided to the Company to preserve its ownership of such assets.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Copyright © 2023 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