

Credit Opinion

27 September 2023

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

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Ningguo Economic Development Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Ningguo Economic Development Holding Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Ningguo Economic Development Holding Group Co., Ltd. (“NGED” or the “Company”) reflects the Ningguo City Government’s (1) relatively 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 the local government’s capacity to provide support reflects Ningguo City having the 2nd largest gross regional production (“GRP”) among the districts or counties in Xuancheng City, and Ningguo Economic and Technological Development Zone (“Ningguo ETDZ”) being a national-level ETDZ with increasing comprehensive strength and developed industries.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) the most important local infrastructure investment and financing company (“LIIFC”) in Ningguo ETDZ; and (2) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) fast debt growth driven by continuous investment in construction projects; and (3) medium contingent liabilities risk.

The stable outlook on NGED’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important role in the development of Ningguo ETDZ over the next 12-18 months.

Rating Drivers

- Important role as the largest LIIFC by assets in Ningguo ETDZ
- Medium exposure to commercial activities
- Good track record of receiving government support
- Fast debt growth driven by continuous investment in construction projects
- Access to diversified financing channels
- Medium contingent liabilities risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities and improved in financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 reduced strategic significance or higher exposure to risky commercial activities.

Key Indicators

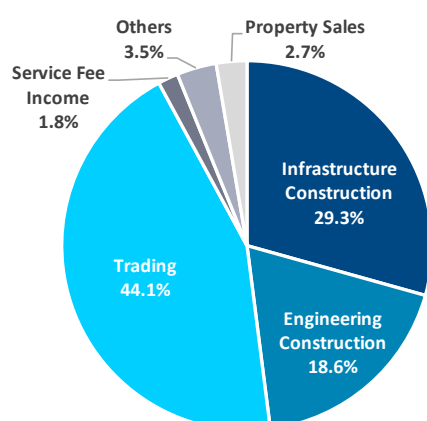
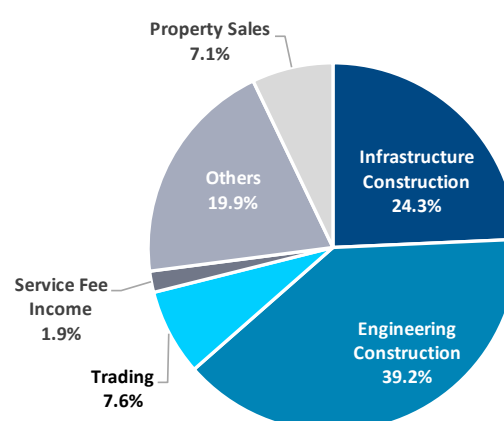
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	18.1	21.3	25.1	32.9
Total Equity (RMB billion)	7.4	9.0	9.9	13.4
Total Revenue (RMB billion)	0.9	1.0	1.9	1.0
Total Debt/Total Capital (%)	47.3	46.5	51.6	50.8

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

Source: Company information, CCXAP research

Corporate Profile

Established in 2012, NGED is the most important LIIFC in Ningguo ETDZ. In May 2023, consolidated another LIIFC, Anhui Ningguo Construction Investment Group Co., Ltd. ("NGCI"), the Company became the largest one by total assets in Ningguo ETDZ. It takes responsibility for major public infrastructure and welfare projects in the region, including infrastructure construction, resettlement construction, and land consolidation in Ningguo ETDZ. Meanwhile, the Company has commercial operations, including property development, engineering construction and trading. As of 30 June 2023, the Company was directly and wholly owned by the Management Committee of Ningguo ETDZ.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has a relatively strong capacity to provide support given Ningguo City has the 2nd GRP among the districts or counties in Xuancheng City, and Ningguo ETZ being a national-level ETZ with increasing comprehensive strength and developed industries.

Located in the southeastern part of Anhui Province, Xuancheng City is one of the cities of the Yangtze River Delta urban agglomeration and one of the cities in the demonstration zone for industrial transfer of Wanjiang River City Belt. Xuancheng City has relatively good economic strength with fast growth rate, but moderate fiscal profile. After years of industrial development and upgrading, Xuancheng City has developed 2 pillar industries, which are new energy industry and auto parts industry, and 3 competitive industries, which are the electronic information industry, high-end equipment manufacturing industry as well as new materials and fine chemical industry. Its GRP increased to RMB191.4 billion in 2022 from RMB160.8 billion in 2020. Its economic growth rate outperformed the national average level and provincial average level over the past three years. The general budgetary revenue of Xuancheng Municipal Government also increased to RMB18.9 billion in 2022 from RMB16.8 billion in 2020. However, the fiscal balance and stability of Xuancheng Municipal Government remained moderate. In 2022, the fiscal balance ratio (calculated by general budgetary revenue/general budgetary expenditure) was 54.7% and the fiscal stability ratio (calculated by tax revenue/general budgetary revenue) was 57.2%. Xuancheng Municipal Government's debt profile is relatively weak. As of end-2022, its government debt balance amounted to RMB60.2 billion, accounting for 31.4% of GRP and 127.3% of its total fiscal revenue. From January to June 2023, Xuancheng Municipal Government's general budget revenue was RMB10.7 billion, with an increase of 5.1% compared with the same period in 2022.

Exhibit 3. Key economic and fiscal indicators of Xuancheng City

	2020FY	2021FY	2022FY
GRP (RMB billion)	160.8	183.4	191.4
GRP Growth (%)	4.0	10.1	4.2
General Budgetary Revenue (RMB billion)	16.8	18.3	18.9
General Budgetary Expenditure (RMB billion)	32.5	31.5	34.6
Local Government Debt (RMB billion)	45.2	53.6	60.2

Source: Xuancheng Municipal Government, CCXAP research

Ningguo City is a county-level city in Xuancheng City. After years of development, Ningguo City has established three pillar industries, including automotive components, wear-resisting castings, and electronic components. In 2022, the GRP of Ningguo City amounted to RMB45.4 billion, with a YoY growth rate of 6.0%, ranking the 2nd among all the districts or counties in Xuancheng City. Supported by good economic development, Ningguo City demonstrated ongoing growth of fiscal strength over the past three years. Its general budgetary revenue increased from RMB3.1 billion in 2020 to RMB3.7 billion in 2022. At the same time, Ningguo City's tax revenue increased from RMB2.2 billion to RMB2.5 billion, accounting for 67.6% of general budget revenue in 2022. However, Ningguo City Government fiscal balance ratio was moderate. The average fiscal balance ratio of Ningguo City Government was 68.6% over the past three years. As of 31 December 2022, the outstanding debt of Ningguo City Government was RMB9.4 billion, accounting for 20.7% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Ningguo City

	2020FY	2021FY	2022FY
GRP (RMB billion)	38.4	43.2	45.4
GRP Growth (%)	5.3	10.7	6.0
General Budgetary Revenue (RMB billion)	3.1	3.5	3.7
General Budgetary Expenditure (RMB billion)	4.6	4.5	5.4
Local Government Debt (RMB billion)	6.6	7.5	9.4

Source: Ningguo City Government, CCXAP research

Ningguo ETDZ was established in 2000 and approved as a national economic and technological development zone in 2013. Its development pattern was called "one district, four parks, and one town". Ningguo ETDZ has formed one primary industry and four characteristic industries, which are automotive components, high-end equipment and wear-resistant castings, electronic information, green food, and fine chemicals and new materials, respectively. In 2022, the comprehensive strength of Ningguo ETDZ ranked 45th and 3rd among national-level ETDZs in China and Anhui Province, respectively. Ningguo ETDZ plays an important role in the economic development of Ningguo City. In 2022, the GRP of Ningguo ETDZ amounted to RMB27.3 billion, with a YoY growth rate of 8.0%, accounting for around 60% of the GRP of Ningguo City. Meanwhile, the tax revenue of Ningguo ETDZ was RMB1.8 billion, accounting for around 70% of Ningguo City's tax revenue. Several listed companies have settled in Ningguo ETDZ, such as Anhui Zhongding Sealing Parts Co., Ltd., Zhejiang Yasha Decoration Co., Ltd. and Anhui Fengxing Wear Resistant Materials Co., Ltd.

Government's Willingness to Provide Support

Important role as the largest LIIFC by assets in Ningguo ETDZ

NGED is the most important and the largest LIIFC in Ningguo ETDZ. It plays a dominant role in undertaking infrastructure construction in Ningguo ETDZ including road transportation, landscaping, land development and consolidation, and resettlement housing. The Company also undertakes construction of the industrial parks and standard factories through engineering construction business mode.

NGED carries out various infrastructure construction projects mainly by agent construction model. Under the agent construction model, NGED signs an entrusted construction contract with the local government and takes responsibility for fundraising for the projects. The entrusted parties would pay construction costs plus a certain markup to the Company. As of 30 June 2023, the Company had 6 key infrastructure construction projects under construction, mainly involving the construction and upgrade of infrastructure and supporting facilities projects in the industry parks such as the China-German intelligent manufacturing town project, with a total investment of RMB7.3 billion and an uninvested amount of RMB5.6 billion. At the same time, there were 3 infrastructure

construction projects under planning, with a total investment of RMB2.8 billion. The large uninvested amount indicates relatively large capital expenditure pressure for the Company. Meanwhile, the government payment for completed projects is prolonged, which may further increase NGED's capital expenditure pressure.

NGED also engages in the construction and selling of resettlement housing. The Company carries out the construction of resettlement housing projects in accordance with the planning of the Management Committee of Ningguo ETDZ. The Company is responsible for raising funds for the projects and selling different types of resettlement housing to resettlement households at prices guided by the local government. As of 30 June 2023, the Company had 3 key projects under construction and planning, with a total investment of RMB174 million and an uninvested amount of around RMB100 million.

Medium exposure to commercial activities

The Company's commercial activities include property development, engineering construction, trading, as well as leasing. Based on our assessment, NGED's exposure to commercial activities is medium with the assets of commercial activities accounting for from 20% to 30% of total assets.

The Company is engaged in other businesses such as property leasing and industrial park development. As of 30 June 2023, the Company has invested in the new energy high-end intelligent manufacturing industrial park project with a total investment amount of RMB2.5 billion which relies on leasing and sales to achieve profit. Meanwhile, the Company participates in the industrial property leasing business with a high occupancy rate. However, the revenue contributed by the leasing business was still relatively small and there is certain expenditure pressure on ongoing investment.

NGED expands its business to property development. As of 30 June 2023, there was a commercial housing project under construction, with a total investment amount of RMB905 million and an uninvested amount of RMB226 million. The sale rate of this project reached about 50% at the same time. However, during the downturns in China's property market, property development projects would be exposed to more uncertainties during construction, sales, and operation.

The Company conducts engineering construction mainly through its subsidiary Anhui Huaren Road and Bridge Engineering Co., Ltd. ("HRRB") acquired in 2019. HRRB has the qualifications of Level 2 general contracting for highway engineering construction and Level 2 general contracting for municipal public engineering construction. HRRB obtains the projects mainly through market-oriented bidding or subcontracting from main contractors. The engineering construction business has been developed rapidly in recent years, the revenue from this business increased from RMB127 million in 2020 to RMB352 million in 2022. Its business is also supported by the growth in the number and value of newly signed contracts in Ningguo City and other cities in Jiangsu Province. As of 30 June 2023, the Company had 10 key engineering construction projects under construction, with a total contract amount of RMB1.1 billion. The projects mainly include industrial parks, standard factories, roads, as well as water conservancy facilities.

Besides, the trading business also developed rapidly in recent years with the revenue increasing to RMB834 million, 44.1% of total revenue in 2022. However, the profit margin remains at a low level at around 1.5% in 2022. The main products of the trading business include rare earth, steel, scrap copper, and zinc ingots. However, the top 5 supplies and customers of trading business represented 93.4% and 100% of the purchase and sales amount, respectively, at end-2022, demonstrating relatively high concentration risks. Meanwhile, the Company would provide an account period to the customers, which may expose the Company to credit contagion risk. The main customers are the private-owned enterprises in Anhui Province.

Fast debt growth driven by continuous investment in construction projects

The Company showed fast debt growth due to the continuous investment in construction projects. NGED's total debt increased from RMB6.6 billion in 2020 to RMB13.8 billion in 2023H1. The Company maintained a moderate total capitalization ratio over the past three years. As of 30 June 2023, its total capitalization ratio was 50.8%. As of 30 June 2023, the short-term debt was RMB3.7 billion, accounting for 26.5% of total debt. The Company maintained a relatively low cash to short-term debt ratio at around 0.5x from 2020 to 2022, which could not cover the short-term debt. Considering the large uninvested amounts of construction projects, we expect the Company would continue to rely on external financing such as bank loans and its debt burden would further increase over the next 12-18 months.

Good track record of receiving government support

The Company has a good track record of receiving support from the local government to support its operation in the form of equity transfer, capital contributions, cash and asset injections, and fiscal subsidies. For example, in May 2023, the local government transferred whole share of NGCI to the Company, which enlarged NGED's business scope and overall strength. During the first half year of 2023, the Company received assets injection from the local government, including pipe network assets, as well as parking space concession, further enhancing NGED's net assets by RMB3.5 billion. From 2020 to 2023H1, the local government provided fiscal subsidies of around RMB832 million to the Company. Given the importance of NGED to local economic and industrial development, we believe the Company will continue to receive support from the local government.

Access to diversified financing channels

NGED has multiple financing channels such as bank loans, domestic bond issuance, and non-standard financing. Bank loans and bond issuances accounted for the majority of total debt. The Company maintains good and long-term relationships with large domestic banks such as Agricultural Development Bank of China, Industrial and Commercial Bank of China Limited, and Huishang Bank Corporation Limited. As of 30 June 2023, the Company had total bank facilities of RMB12.3 billion, with the available portion being around RMB6.0 billion, demonstrating sufficient standby liquidity. Benefiting from Ningguo ETDZ's status as the national-level ETDZ, the Company obtained project loans from large domestic banks and policy banks to support its infrastructure construction projects, which could relieve the Company's financial pressure. Meanwhile, the Company has access to the domestic bond market. From January 2022 to June 2023, the Company issued 11 tranches of domestic bonds through its subsidiary NGCI, including MTNs and SCPs. In addition, NGED's exposure to non-standard financing products was moderate, which accounted for around 22% of total debt as of 30 June 2023. The main non-standard financing product was financing leasing and trusts.

Medium contingent liabilities risk

The Company faces moderate contingent risk resulting from its external guarantees. As of 30 June 2023, the Company's external guarantees amounted to RMB3.6 billion, accounting for 26.9% of its net assets. The external guarantees were mainly provided to the state-owned enterprises ("SOEs") in Ningguo City, accounting for 94.4% of its total external guarantees. The remaining 5.6% of external guarantees were provided to private-owned enterprises Anhui Zhongding Holding (Group) Co., Ltd. ("Anhui Zhongding"). Anhui Zhongding is the important tax contributor for Ningguo ETDZ and Ningguo City. Meanwhile, Anhui Zhongding has strong market position in the industry of automotive components.

ESG Considerations

NGED faces environmental risks because it has undertaken major infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it implements public policy initiatives by building public infrastructure and industrial parks in Ningguo ETDZ. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

NGED's governance considerations are also material as the Company is subject to oversight by the Management Committee of Ningguo ETDZ and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

NGED's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its important role in the development of Ningguo ETDZ, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

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