



CCXAP affirms Nanning Communications Investment Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook

Hong Kong, 22 September 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BBB_g+ long-term credit rating of Nanning Communications Investment Group Co., Ltd. ("NNCIG" or the "Company"), with stable outlook. NNCIG's rating reflects the Company's proven track record of strong support from the Nanning government, diversified business mix and adequate liquidity position. However, the rating is also constrained by its high capital expenditure pressure on infrastructure construction business.

Corporate Profile

NNCIG was established in October 2014 by State-owned Assets Supervision and Administration Commission of Nanning Municipal Government ("Nanning SASAC"). The Company is the sole entity engaging in water infrastructure construction in Nanning City and a key platform operating transportation infrastructure mandated by the Nanning Municipal Government. As of 30 June 2020, Nanning SASAC held 100% of the Company's shares, and the Nanning Municipal Government was its ultimate shareholder.

Rating Rationale

Credit Strengths

Track record of receiving strong government support. Nanning City is the provincial capital of Guangxi Zhuang Autonomous Region (the "Province") and the core of Beibu Gulf Economic Zone. In 2019, the City reported GRP of RMB450.7 billion with an annual growth of 5.0%. GRP contributions from primary, secondary and tertiary industries were in the proportion of 11.2:23.2:65.6 in 2019. The City recorded a general budgetary revenue of RMB37.1 billion in 2019, increasing by 3.3% YoY, of which tax revenue contributed 73.1% of total revenue. The continuous growth of regional economy and fiscal revenue has strengthened the ability of local government to support the Company's business development. Nevertheless, Nanning City recorded a contraction in GRP of 3.7% YoY and a contraction in general budgetary revenue of 3.0% YoY in 2020Q1 amid the COVID-19 outbreak. In the first half of 2020, Nanning City's GRP and general budgetary revenue reversed the downward trend and recorded a marginal increase of 2.3% and 2.4% YoY, respectively. We expect the economic situation of the City will gradually resume to normal starting from 2020Q2.

NNCIG has high likelihood of receiving extraordinary support from the Nanning government in times of need based on the Company's good track record of receiving ongoing support such as capital

injections and subsidies. From 2014 to 2019, Nanning SASAC injected capital of RMB3.0 billion to the Company. The Company also received government subsidies in the amount of RMB0.5 billion in 2019.

Diversified business mix given close relationship with the local government. Given its close relationship with the local government, the Company was assigned to take charge of transportation operations in Nanning City, including bus, taxi, and parking lot operations. NNCIG has a quasi-monopoly position in bus operations, representing a market share of over 50% in Nanning City. As of 30 June 2020, NNCIG had 1,655 buses with 113 routes in operation. The fare income from bus operations was RMB225.6 million in 2019, almost stable compared with that of RMB225.6 million in 2018. Besides, the government provided subsidies of bus operations totalling RMB499.1 million in 2019.

NNCIG operates a taxi rental business by contract mode, that is, the Company purchases vehicles and provides rental services to drivers. As of 30 June 2020, the Company had 500 taxies in operation, occupying 7.4% of the taxies citywide. In terms of parking lot operations, there were 18,282 parking spots managed by NNCIG as of 30 June 2020.

Energy business also contributes stable and growing revenue to the Company. As of 30 June 2020, 11 power units with a total installed capacity of 207.6 thousand kilowatts was put into operation. NNCIG achieved revenue of RMB224.4 million from electricity sales in 2019. Additionally, the Company is involved in the Liquefied Natural Gas (“LNG”) and fuel oil supply businesses. As of 30 June 2020, 8 gas stations and 11 oil stations had come into service. With the increase of operating scale, NNCIG reported income of RMB467.2 million from refuelling business in 2019.

Apart from the above businesses, NNCIG diversifies its business profile to real estate and trading segments. Revenue from real estate and trading segments amounted to RMB268.0 million and RMB716.5 million in 2019, respectively, which have provided supplemental income to the Company.

Adequate liquidity position. The Company’s cash reserve was RMB2.9 billion and cash to short-term debt ratio was 10.6x at the end of June 2020, suggesting adequate liquidity profile. As of 30 June 2020, the Company had total credit facilities of RMB18.6 billion, the unutilized portion of which was RMB6.4 billion, indicating good liquidity buffer.

Limited contingent liabilities risk. NNCIG’s total capitalization ratio was 49.7% at the end of June 2020, almost stable with that of 50.1% at end-2019. As of 30 June 2020, the Company pledged its assets for loans of RMB3.3 billion, representing 8.1% of its total assets, and its external guarantee amount was RMB129.0 million, representing 1.0% of its net assets. The Company’s contingent liabilities risk is limited.

Credit Challenges

Capital expenditure pressure on infrastructure construction business. NNCIG is a crucial infrastructure constructor in Nanning City, in charge of the construction of the City’s roads, parking lots, transportation hubs, and water conservancy infrastructures. The Company has a large number of infrastructure projects in the pipeline that results in capital expenditure pressure. As of 30 June

2020, the Company's 10 key projects under development with a gross investment amount of RMB12.3 billion and an invested amount of RMB10.1 billion. The Company plans to invest around RMB0.6 billion on infrastructure construction in 2020. NNCIG's capital expenditure might be under pressure due to the large scheduled investments in infrastructure projects. Meanwhile, the Company relies on external financing to supplement the funding gap, which may result in increased debt burden and repayment pressure.

Operating profits rely heavily on government subsidies. In 2019 and 2020H1, NNCIG generated total revenue of RMB2.2 billion and RMB0.9 billion, respectively. In 2019, trading, energy, transportation and real estate contributed 32.2%, 31.1%, 13.5% and 12.1% of total revenue, respectively. However, the Company's transportation sector with public welfare nature is unable to rely on its own income to keep breakeven. NNCIG has a relatively weak operating profitability and its operating profits rely heavily on government subsidies. In 2019, the Company reported an operating profit of RMB0.1 billion with government subsidies of RMB0.5 billion. Although NNCIG's operating profitability is relatively weak and its profits rely heavily on government subsidies, we expect that the Company would strengthen its diversified businesses and maintain its revenue growth.

Rating Outlook

The stable outlook on NNCIG's rating reflects our expectation that NNCIG will continue to receive recurring support from the local government. We expect that the Company will benefit from the steady economic development of Nanning City.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

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