

CCXAP assigns first-time long-term credit rating of BBB_g to Quzhou Communications Investment Group Co., Ltd., with stable outlook

Hong Kong, 29 December 2021 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g long-term credit rating to Quzhou Communications Investment Group Co., Ltd. (“QCIG” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of QCIG is underpinned by the Company’s (1) strong strategic position in transportation infrastructure construction in Quzhou City; and (2) diversified business mix, which improved its revenue and operating profit.

However, the rating is constrained by the Company’s (1) large capital expenditure pressure resulting from public-policy projects in the pipeline; and (2) moderate asset quality and high debt leverage.

The rating also incorporates our expectation that QCIG has a high likelihood of receiving support from the Quzhou Municipal Government in times of need, given (1) the local government’s ultimate control over the Company, (2) the Company’s strategic role as the major transportation infrastructure construction entity in Quzhou City; and (3) the Company’s track record of receiving government support such as financial subsidies and asset transfers.

Corporate Profile

Established in 2002, QCIG is an important investment, financing, and construction entity for major transportation infrastructure projects in Quzhou City. The Company is wholly owned by Quzhou State-owned Assets Operation Co., Ltd. (“QSAO”), and its ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of Quzhou Municipal Government (“Quzhou SASAC”). QCIG is primarily engaged in transportation construction and operation, power generation, and sales of building materials. As of 30 June 2021, the Company had 17 directly controlled subsidiaries.

Rating Rationale

Credit Strengths

High likelihood of receiving support from the Quzhou Municipal Government in times of need. QCIG is the key entity responsible for the investment, financing, construction, and operation of municipal transportation infrastructure projects in Quzhou City. The Company is ultimately controlled by the local government and has a track record of receiving government support, including capital injections, asset transfers, project grants, and financial subsidies.

Strong strategic position in transportation infrastructure construction in Quzhou City. QCIG is the most important transportation infrastructure construction company in Quzhou City. The Company has undertaken a series of large-scale transportation infrastructure projects such as the construction of national and provincial roads, comprehensive passenger transport terminals, and shipping facilities on the Qiantang River.

Diversified business mix, which improved its revenue and operating profit. In June 2019, to expand and diversify its business, QCIG acquired a 34% stake in Baohong Construction, and expanded its business to property development and building materials sales, with a substantial increase in income. QCIG's revenue increased from RMB99.1 million in 2018 to RMB827.6 million in 2020, with a CAGR of 189.0%.

Credit Challenges

Large capital expenditure pressure resulting from public-policy projects in the pipeline. QCIG had large construction pipelines, which created capital expenditure pressure. As of the end of 2020, the Company had 17 projects that were either under construction or in planning, with a total investment of approximately RMB25.3 billion and outstanding investment of approximately RMB13.2 billion.

Moderate asset quality and high debt leverage. As of mid-2021, the Company's assets were mainly composed of non-liquid assets, such as highways, railways, and construction in progress, accounting for 70.3% of its total assets. The Company's capitalization ratio increased from 24.5% at end-2018 to 42.1% at mid-2021, owing to its debt-driven infrastructure construction over the past years.

Rating Outlook

The stable outlook on QCIG's rating reflects our expectation that the Company will maintain its important role in transportation infrastructure construction and continue to receive support from the local government over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal performance of Quzhou City improves notably; (2) the likelihood of receiving government support increases; and (3) the Company's stand-alone credit profile improves, such as better asset quality, lower debt leverage and strengthened operating profitability, on a sustained basis.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal performance of Quzhou City weakens; (2) the likelihood of receiving government support decreases; or (3) the Company's stand-alone credit profile deteriorates significantly, such as heightened debt leverage, weakened financing capability or worsened liquidity profile.

Rating Methodology

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



Regulatory Disclosures

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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.

Peter Chong

Credit Analyst

+852-2860 7124

peter_chong@ccxap.com

Elle Hu

Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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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