

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

Hong Kong, 29 September 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Xiaogan Gaochuang Investment Co., Ltd. (“XGGC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of XGGC reflects Xiaogan Municipal Government’s strong capacity to support and the local government’s high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Xiaogan Municipal Government’s capacity to support reflects its vital role in Hubei Province, with strong economic conditions, moderate fiscal metrics and debt profile.

The rating also reflects the local government’s high willingness to support, which is based on the Company’s (1) important role in local infrastructure construction and shantytown renovation projects in Xiaogan High-tech Zone; (2) good track record of receiving government payments; and (3) fair access to funding from banks and domestic bond market. However, the rating is constrained by the Company’s (1) moderate exposure to commercial businesses; (2) high exposure to account receivable collection risk; and (3) fast debt growth driven by large number of construction projects.

Corporate Profile

Founded in 2003, XGGC is one of the important local infrastructure investment and financing company (“LIIFC”) in Xiaogan City, with the third-largest total assets. The Company shoulders the mission of regional construction in Xiaogan High-tech Industry Development Zone (“Xiaogan High-tech Zone”) and has a clear strategic position. It is responsible for major policy-driven projects in the region, including infrastructure construction such as the maintenance of roads and facilities, undertaking local environmental protection projects; and shantytown renovation that provides affordable housing to the residents. The Company also has commercial operations, including property leasing, engineering construction, property management, and market-oriented sales of residential buildings.

After the completion of the equity transfer in March 2022, the Company was 100% directly and indirectly held by Hubei Huanchuan State Owned Capital Investment and Operation Group Co., Ltd. as of 30 June 2022; while State-owned Assets Supervision and Administration Commission of Xiaogan Municipal Government became its ultimate controller.

Rating Rationale

Credit Strengths

Important role in local infrastructure construction and shantytown renovation projects in Xiaogan High-tech Zone. XGGC is one of the key LIIFCs in the Xiaogan High-tech Zone and Xiaogan City, with a clear strategic role in regional development. The Company is mainly responsible for the construction of infrastructure projects such as road and facilities renovation

and maintenance, greening works and water supply and drainage works. It also demonstrates a dominant position in shantytown renovation with many projects under construction.

Good track record of receiving government payments. XGGC has a proven track record of receiving government payments. In 2021, the local government transferred assets including shops in several communities to the Company, which increased its capital reserve by RMB1.7 billion. XGGC also received RMB520 million in government subsidies, which will give the Company more resources and flexibility to support new investments and constructions.

Fair access to funding from banks and domestic bond market. Bank loans and domestic bonds accounted for the majority of XGGC's total debt, with relatively low costs. It also has no exposure to nonstandard financing, demonstrating relatively healthy debt structure. Moreover, the Company showed good access to the domestic bond market with different financial products such as corporate bonds, MTNs, PPNs, and short-term financing bonds.

Credit Challenges

Moderate exposure to commercial activities. XGGC's major commercial activities include property leasing, engineering construction, property management and market-oriented sales of residential buildings. However, we believe that the Company's commercial risk is moderate as most of these commercial activities are conducted under government guidance with strong policy-driven.

High exposure to account receivable collection risk. XGGC had a relatively large scale of account receivables occupying a large amount of working capital. The Company bore high-risk exposure of RMB673 million to the equity transaction receivables from Hengda Real Estate Group Co., Ltd. It made bad debt provision of RMB539 million in 2021 and the remaining amounts still had a high collection risk.

Fast debt growth driven by large number of construction projects. XGGC's total debt has been growing rapidly over the past three years, derived from the continued financing of construction projects. We expect that the Company will continue to rely on external financings such as bank loans and bond issuance due to its long cash collection period. Therefore, the total debt will further increase with the total assets.

Rating Outlook

The stable outlook on XGGC's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will continue to play an important role in the infrastructure construction and shantytown renovation in Xiaogan High-tech Zone.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's economic prospects and fiscal performance improve and its ability to support the Company increases; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support,



such as materially increasing its public policy status, lowering the exposure to risky commercial activities, and improving debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's economic prospects and fiscal performance deteriorate, reducing its capacity to support the Company; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, increased exposure to commercial activities, or decreased government payments.

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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