

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Chongqing Fengdu Industrial Development Group Co., Ltd., with stable outlook.**

Hong Kong, 3 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Chongqing Fengdu Industrial Development Group Co., Ltd. (“CFID” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of CFID reflects Chongqing Fengdu County Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Fengdu County Government’s capacity to provide support reflects Fengdu County has ongoing economic growth, but restrained by its weak fiscal strength and relatively heavy debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) most important policy role in Fengdu County; (2) high sustainability of public policy businesses; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) increasing debt leverage; and (2) moderate assets liquidity.

### **Corporate Profile**

Founded in 2018, formerly known as Fengdu Hongfeng Construction Development Co., Ltd. In 2022, after the consolidation of 4 major local infrastructure investment and financing companies (“LIIFCs”), CFID became the most important LIIFC in Fengdu County. The Company is primarily responsible for infrastructure construction, land consolidation, resettlement housing construction, and shantytown renovation projects in Fengdu County. Apart from public projects, the Company also undertakes various commercial activities, such as property leasing, commercial housing sales, engineering constructions, and civilian blasting products sales. As of 31 December 2022, the Company is wholly owned and ultimately controlled by Fengdu County State-owned Assets Affairs Center.

### **Rating Rationale**

#### **Credit Strengths**

**Most important policy role in Fengdu County after the consolidation of local LIIFCs.** CFID has played the most important policy role in implementing the local government’s development plan. The Company is mainly responsible for infrastructure construction, land consolidation, resettlement housing construction, and shantytown renovation projects in Fengdu County. Considering the CFID’s most important policy role in Fengdu County, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

**High sustainability of public policy businesses.** As the major developer and operator of Fengdu County, CFID has participated in primary land development and infrastructure construction businesses through its subsidiaries. There are considerable construction projects

in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure on the Company.

**Low but increasing exposure to commercial activities.** In addition to public activities, CFID is also involved in various commercial activities such as self-operating projects, commercial housing sales, engineering constructions, and civilian blasting products sales. We consider the Company's commercial business exposure to be low, as its market-driven businesses need to optimize the assets structure.

**Good track record of receiving government payments.** As the most important LIIFC in Fengdu County, CFID has a track record of receiving payments from the Fengdu County government. These payments take various forms, such as government subsidies and capital injections. Given CFID's most important policy role in the region, we expect the Company will continue to receive support from the Fengdu County Government in the future.

### Credit Challenges

**Reasonable but increasing debt leverage and moderate asset liquidity.** CFID's total debt had increased from RMB16.0 billion at end-2021 to RMB18.4 billion as of 31 March 2023, with a relatively low capitalization ratio of 30.2%. CFID's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, and receivables, all with relatively low liquidity.

**Relatively single financing source and high financing cost.** The Company's debt financing was mainly provided by domestic banks. Only 1.8% of the Company's debt was provided by the onshore debt capital market, with an average coupon rate of 7.1%. Around 9% of its debt was provided by non-standard financing, mainly using financial leasing, with a financing cost of 8.2%.

### Rating Outlook

The stable outlook on CFID's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its most important policy role in Fengdu County.

#### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved asset liquidity.

#### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.



## 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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