

CCXAP affirms Chuzhou Economic and Technological Development General Corporation's long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 2 September 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Chuzhou Economic and Technological Development General Corporation’s long-term credit rating at BBB_g, with stable outlook.

The BBB_g long-term credit rating of Chuzhou Economic and Technological Development General Corporation (“CETD” or the “Company”) reflects the local government’s (1) 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 Chuzhou City’s economic importance in Anhui Province, and Chuzhou ETDZ’s status as the national-level ETDZ in Chuzhou City, with increasing economic strength and good fiscal profile.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) key position as the primary infrastructure construction and state-owned assets operation entity in Chuzhou ETDZ; (2) good track record of receiving government payments; and (3) access to diversified fundings. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) relatively high debt burden driven by ongoing investments in construction projects; and (3) moderate asset quality and liquidity profile.

Corporate Profile

Founded in 1993, CETD is wholly owned and ultimately controlled by the Management Committee of Chuzhou ETDZ. The Company is the most important local infrastructure investment and financing company (“LIIFC”) in Chuzhou ETDZ, responsible for the local public policy activities such as infrastructure construction and primary land development. It is also engaged in commercial activities such as supply chain, property leasing, industrial investment businesses.

Rating Rationale

Credit Strengths

Key position as the primary infrastructure construction and state-owned assets operation entity in Chuzhou ETDZ. As the primary infrastructure construction platform in the Chuzhou ETDZ, the Company has undertaken a number of infrastructure construction, resettlement housing construction, land transfer and factories construction within the region, making great contributions to the local social and economic development, benefiting investment attraction and improving related industrial chains in Chuzhou ETDZ. Considering its essential role in regional development, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government payments. The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds,

and capital injections. Given the Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

Access to diversified fundings. CETD has good access to financing channels, mainly including bank loans and bond financing. However, the proportion of bond financing in the debt structure is relatively high, accounting for over 65% of total debts, which exposed the Company to higher uncertainties from the volatility of the capital market and changes in policy. Furthermore, the Company's exposure to non-standard financing, mainly including financial leasing and debt financing, is manageable, accounting for below 5% of total debts.

Credit Challenges

Moderate exposure to commercial activities. The Company's commercial activities include supply chain, property leasing such as equipment and vehicles, sales of plant, loan services, industrial investment and self-operated projects construction. We estimate that the Company's commercial exposure is moderate with the assets of commercial activities accounting for 25% to 30% of its total assets. Although, the commercial activities can provide supplementary income to the Company. They also bring exerting certain capital expenditure pressure at the same time.

Relatively high debt burden driven by ongoing investments in construction projects. Due to the ongoing financing for construction projects, the Company's total debt has been growing for the past three years. The Company's total debt increased to RMB28.7 billion on 30 June 2024 from RMB28.1 billion at end-2022. In addition, the Company has certain short-term debt repayment pressure. We expect its scale of debt to continue to increase over the next 12-18 months given the large capital needs of self-operated projects.

Moderate asset quality and liquidity profile. As of 30 June 2024, the account receivables, inventories and other receivables totally accounted for 61.5% of total assets. The total receivables mainly consist of government-related receivables and receivables generated from supply chain business, while inventories mainly consist of land assets and costs for agency construction projects, all with low liquidity. On top of that, the Company's long term equity investment and other non-current financial assets, resulting from equity investment and fund investment, accounted for around 9.5% of its total assets, and investment properties accounted for around 9.4% of its total assets, generating supplementary income and cash flow.

Rating Outlook

The stable outlook on CETD'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 Chuzhou ETDZ.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in government payments or increase in exposure to commercial activities.

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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