

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Luoyang Guoxing Investment Holding Group Co., Ltd., with stable outlook.**

Hong Kong, 22 October, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub> to Luoyang Guoxing Investment Holding Group Co., Ltd. (“LYGX” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of Luoyang Guoxing Investment Holding Group Co., Ltd. (“LYGX” or the “Company”) reflects Mengjin District 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 Mengjin District Government’s capacity to support reflects its relatively good economic strength, with ongoing economic growth and good fiscal stability. Mengjin District’s gross regional product has ranked top among all the districts or counties in Luoyang City for years.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in infrastructure construction and urban operation of Mengjin District; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities; (2) increasing debt burden; and (3) moderate asset liquidity.

### **Corporate Profile**

Established in 2016, LYGX is the largest local infrastructure investment and financing companies (“LIIFCs”) by total assets in Mengjin District, Luoyang City. In accordance with the economic and industrial development plan of Mengjin District, the Company serves as the most important comprehensive state-owned capital investment and operation in Mengjin District. LYGX is mainly responsible for infrastructure construction and urban operation in Mengjin District, including water supply and rural revitalization. The Company has also diversified into other commercial activities, including self-operated construction, pipeline operation, property management, engineering construction, tourist attraction operation, and factoring. In 2023, the Finance Bureau of Mengjin District, Luoyang City (“Finance Bureau of Mengjin District”) provided major capital injection to the Company including cash, equity and assets, enhancing the Company’s capital strength significantly. As of 30 June 2024, the Company was wholly owned and controlled by the Finance Bureau of Mengjin District; the total asset of the Company was RMB24.7 billion.

### **Rating Rationale**

#### **Credit Strengths**

#### **Important role in infrastructure construction and urban operation of Mengjin District.**

There are mainly four LIIFCs in Mengjin District under the control of the local government. LYGX is the largest LIIFC by assets in Mengjin District, focusing on infrastructure construction and public utility operation in Mengjin District. Considering the Company’s important role in infrastructure construction and urban operation of Mengjin District, we believe that the

Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Good track record of receiving government support.** LYGX has a good track record of receiving support from the local government in the form of equity and asset transfers, capital injections, and operating subsidies to support its investments and the operation of its businesses. Considering its strong policy role in Mengjin District, we expect the local government will continue to provide support to the Company.

### Credit Challenges

**Increasing exposure to commercial activities.** In addition to public activities, LYGX participates in various commercial activities, including self-operated construction and engineering construction. The Company is also expanding its business scope to mining and sales of sand and gravel business as well as tourism operation. While these commercial activities generate supplemental income, they may also pose higher operational and business risks than its public-policy businesses. Considering the Company's ongoing investment in these projects, we believe that LYGX's exposure to commercial activities will increase in the future.

**Increasing debt burden.** Due to the continuous investment in infrastructure construction projects, LYGX's total debt has been growing moderately over the past three years. As of 30 June 2024, LYGX's total debt increased to RMB3.9 billion from RMB2.8 billion as of end-2021. However, owing to the significant increase in equity resulting from capital injection, the Company's total capitalization ratio, as measured by total debt to total capital, decreased from 36.4% to 17.1% over the same period.

**Moderate asset liquidity.** LYGX's asset liquidity was moderate. As of 30 June 2024, the Company's receivables, inventories, fixed assets and intangible assets accounted for around 67.5% of the total assets, all of which are considered low liquidity. The Company's inventories mainly include the cost of construction works, while intangible assets are mainly the income rights of sand and gravel resources transferred by local government as well as the land use rights, which are considered low liquidity.

### Rating Outlook

The stable outlook on LYGX's rating reflects our expectation that the Mengjin District Government's capacity to provide support will be stable, and the Company's characteristics such as its important role in infrastructure construction and urban operation of Mengjin District will remain unchanged over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Mengjin District 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 diversified the financing channels.

#### What could downgrade the rating?



The rating could be downgraded if (1) Mengjin District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced policy significance or increased exposure to contingent liabilities.

### **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**

CCXAP's Rating Symbols and Definitions are available on its website at:  
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