

## CCXAP affirms Renshou Urban Investment Group Co., Ltd.'s BBB<sub>g</sub> long-term credit rating, with stable outlook

Hong Kong, 29 October 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Renshou Urban Investment Group Co., Ltd. (“RUIG” or the “Company”) at BBB<sub>g</sub>, with stable outlook.

The BBB<sub>g</sub> long-term credit rating of Renshou Urban Investment Group Co., Ltd. reflects Renshou County 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 Renshou County Government’s capacity to support reflects Renshou County’s ongoing economic growth, with relatively rich agricultural resources.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) crucial status as the most important infrastructure construction and state-owned assets operation entity in Renshou County; and (2) track record of government funding supports for its construction projects; and (3) diversified funding channels. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, with operating performance lower than expectations; (2) large capital expenditure pressure; and (3) relatively large short-term debt repayment pressure and moderate asset liquidity.

### Corporate Profile

Formerly known as Renshou County Heilongtan Sunshine Cultural Tourism Development Co., Ltd., RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County. After consolidating Renshou Development Investment Group Co., Ltd. and other local state-owned enterprises, the Company became the largest Local Infrastructure Investment and Financing Company (“LIIFC”) by asset in Renshou County. RUIG is primarily engaged in infrastructure construction, land consolidation, public transport operation, water supply, and sewage treatment in Renshou County. It also undertakes commercial activities such as self-operating projects, electronic product sales, wire and cable sales, property leasing, and inspection services. As of 31 December 2023, the Company is wholly owned and ultimately controlled by the Renshou County State-owned Assets Supervision and Administration Bureau (“Renshou SASAB”).

### Rating Rationale

#### Credit Strengths

**The most important Infrastructure construction and state-owned assets operation entity in Renshou County.** RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County, with a clear strategic role in regional development and the largest asset scale. The Company is mainly responsible for major public infrastructure and welfare projects construction in Renshou County, as well as land transfer and land consolidation. The Company also conducts public utilities in Renshou County, including public transport operation, water supply, and sewage treatment. We believe that the replacement cost



for the Company's role is high as these public services are essential for local residents and regional development.

**Good track record of receiving government support.** The Company has a solid track record of receiving support from the local government in the past few years, including government subsidies, cash injections, asset injections, and equity transfers. In 2023, the Company received asset injection of RMB14.2 billion from the local government, mainly sandstone operating rights, pipeline networks, and investment properties. Meanwhile, the local government also provided financial subsidies of around RMB960 million to the Company in 2023. Besides, the Company received cash injection of RMB665 million from the local government. Considering that RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County, we expect the Company to receive ongoing support from the local government in the future.

**Diversified funding channels.** RUIG has good access to the debt capital market and maintains a good relationship with large domestic banks. As of 31 December 2023, about 68.3% of the Company's debt financing was provided by domestic banks. The Company has sufficient standby liquidity, given its relatively large amount of available credit facility. As of 31 December 2023, it held a total bank credit facility of RMB34.0 billion, and the available credit facility was RMB12.2 billion. Around 19.2% of the Company's debt was provided by the debt capital market. In addition, the Company has a low exposure to non-standard financing, such as financial leasing, which accounted for only 12.4% of its total debt.

### Credit Challenges

**Medium exposure to commercial activities.** RUIG is also engaged in commercial activities such as electronic product sales, wire and cable sales, self-operated projects, property leasing, and inspection services. The diversified business portfolio generates a relatively large amount of cash flow to the Company, but has also significantly increased its commercial business risks. We consider the Company's commercial business risk to be medium, because its commercial activities accounted for around 30% of its total assets.

**Relatively large short-term debt repayment pressure.** RUIG has demonstrated a fast debt growth as a result of relatively large capital demands for the construction projects. RUIG's total debt had increased significantly from RMB23.1 billion at the end of 2022 to RMB29.8 billion as of 31 December 2023. Benefited by the asset injections from the local government, its capitalization ratio slightly decreased from 38.9% to 36.3% over the same period. However, the Company has a relatively large short term debt repayment pressure. The Company's short-term debt accounted for 43.9% of total debt as of 31 December 2023. Meanwhile, its cash to short-debt ratio was only 0.4x. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-18 months.

### Rating Outlook

The stable outlook on RUIG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Renshou County.

#### What could upgrade the rating?

The rating could be upgraded if (1) Renshou County 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 materially reduced exposure to risky commercial activities and improved debt management.

#### What could downgrade the rating?

The rating could be downgraded if (1) Renshou County 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 deteriorated access to fundings, or material decreased government support.

### 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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