
CCXAP assigns BBB_g+ to Wenzhou Lucheng District State-owned Holding Group Co., Ltd.'s proposed CNY bonds

Hong Kong, 12 November 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a senior unsecured debt rating of BBB_g+ to the proposed CNY bonds to be issued by Wenzhou Lucheng District State-owned Holding Group Co., Ltd. (“LSHG” or the “Company”) (BBB_g+ / stable).

The bonds constitute direct, unconditional, unsubordinated, and unsecured obligations of LSHG, which shall at all times rank *pari passu* with all the Company’s other present and future unsecured and unsubordinated obligations. The Company intends to use the proceeds for repayment of the Company’s existing offshore indebtedness.

Corporate Profile

Established in 1997, LSHG is an important local infrastructure investment and financing company in Lucheng District. The Company is primarily focused on urban development activities including the development of resettlement housing, agent construction, parking service, municipal management service, public housing operation service and property leasing. LSHG is ultimately controlled and 100% owned by the State-owned Assets Supervision and Administration Office of Lucheng District Government.

Rating Rationale

LSHG’s senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its leading position in the development of Lucheng District, thereby mitigating any differences in an expected loss that could result from structural subordination.

The BBB_g+ long-term credit rating of LSHG reflects (1) Lucheng District Government’s strong capacity to provide support, and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Lucheng District Government’s capacity to support reflects its good comprehensive strength as the central urban area in Wenzhou City, with ongoing economic growth and good fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) leading position in infrastructure construction and land development of Lucheng District; (2) good track record of receiving ongoing government payments; and (3) access to diversified funding channels. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees provided to local SOEs.

Rating Outlook

The stable outlook on LSHG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its leading position in the development of Lucheng District.

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 decrease in exposure to commercial activities or improvement in assets quality.

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 its strategic significance; decrease in government payments; or increase in debt burden.

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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