

CCXAP assigns first-time long-term credit rating of BB_g+ to Chongqing Nanzhou Water Group Co Ltd., with stable outlook.

Hong Kong, 20 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BB_g+ to Chongqing Nanzhou Water Group Co Ltd. (“CNWG” or the “Company”), with stable outlook.

The BB_g+ long-term credit rating of CNWG reflects Chongqing Qijiang District Government’s moderate capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Qijiang District Government’s capacity to provide support reflects Qijiang District’s relatively small economic scale in Chongqing City, with a modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the sole water conservancy construction entity in Qijiang District; and (2) large amount of project reserves in water conservancy construction. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) rapid debt growth and low asset liquidity; (3) limited financing flexibility with high investment pressure; and (4) weak regional fiscal income limiting government payments.

Corporate Profile

Formerly known as Qijiang County Yunan Water Conservancy and Hydropower Engineering Development Co., Ltd., CNWG was founded in 2002 and is one of the major local infrastructure investment and financing company (“LIIFC”) in Qijiang District. It is the only platform engaged in the construction of water conservancy facilities. The Company is also responsible for public utilities in Qijiang District, including water supply and drainage, sewage treatment and hydroelectric power generation. On top of that, the Company also undertakes various commercial activities, such as real estate development and engineering construction. As of 30 September 2022, the State-owned Assets Supervision and Administration Commission of Qijiang District, Chongqing (“Qijiang SASAC”) is the sole shareholder and ultimate controller of the Company.

Rating Rationale

Credit Strengths

Important role as the sole water conservancy construction entity in Qijiang District.

There are five major LIIFCs in Qijiang District, but CNWG is the only platform to undertake water conservancy construction and operation. The Company is also mandated by the local government to undertake local public activities, such as infrastructure construction, land transfer, water supply and drainage, sewage treatment and hydroelectric power generation.

large amount of project reserves in water conservancy construction. As the sole water conservancy construction entity, the Company has a regional monopoly position in the investment, financing and construction of water conservancy construction in Qijiang District.

CNWG is entrusted by the local government to undertake land development projects in Qijiang District. In addition, CNWG undertakes water supply business outside the main urban area of Qijiang district.

Credit Challenges

Moderate exposure to commercial activities. In addition to public activities, CNWG is also involved in various commercial activities such as real estate development and engineering construction. We consider CNWG's commercial business exposure to be moderate, as its market-driven businesses account for only around 20% of its total assets.

Good track record of receiving government payments, but constrained by weak regional fiscal income. As the only water conservancy construction entity in Qijiang District, CNWG has a good track record of receiving payments from the Qijiang District government. These payments take various forms, such as government subsidies and capital injections. However, government payments are largely subject to the local economy and government fiscal strength. Due to the slump of China's real estate market, the land market performed poorly, thus affecting the government's fiscal income.

Fast debt growth and low asset liquidity. As of 30 September 2022, CNWG's total debt had increased from RMB5.3 billion at end-2019 to RMB6.3 billion. The increase in debt was mainly attributable to the expansion of construction of infrastructure projects and land consolidation projects. CNWG has relatively low asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 61.0% of its total asset as of 30 September 2022.

Limited financing flexibility and high investment pressure. As of 30 September 2022, the Company's cash on hand of RMB374.2 million was insufficient to cover its short-term debts of RMB1.3 billion. Given the limited credit facilities available to the Company, coupled with the large amount of outstanding investment on its construction projects and the relatively high financing costs of LIIFCs in Qijiang District in the onshore debt capital market, we believe additional funding channels, such as the offshore debt capital market, are needed to satisfy the Company's large capital expenditure needs.

Rating Outlook

The stable outlook on CNWG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important role as the sole water conservancy construction entity in Qijiang District.

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 the Company's characteristics enhance the local government's willingness to provide support, such as decreased exposure to commercial activities.

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 the Company's 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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