

CCXAP assigns first-time long-term credit rating of BBB_g to Peixian Urban Construction Investment Development Group Co., Ltd., with stable outlook.

Hong Kong, 9 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Peixian Urban Construction Investment Development Group Co., Ltd. (“PXUC” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of PXUC reflects (1) Pei County 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 the Pei County Government’s capacity to provide support reflects its increasing economic strength, but constrained by relatively weak fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in the urban and industrial development of Pei County; (2) good track record of receiving government support; and (3) diversified funding channels. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden driven by large investment needs; and (3) moderate asset liquidity and medium level of contingent risk.

Corporate Profile

Established in 2021, PXUC is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Pei County. The local government has transferred 100% shares of Pei Xian City Investment Development Co., Ltd. (“PXCD”) and 60% shares of Pei County Economic Development Zone Development Co., Ltd. (“PCED”) to the Company since its establishment. PXUC is positioned as an important entity for the construction of urban infrastructure and operation of urban resources. It is engaged in different businesses in Pei County through its subsidiaries, which include infrastructure construction, resettlement housing, land consolidation, industrial park construction, property development, leasing, and commodity sales. As of 30 June 2023, the Company was wholly owned by the State-owned Assets Supervision and Administration Office of Pei County Government (“Pei County SASAO”).

Rating Rationale

Credit Strengths

Important role in the urban and industrial development of Pei County. PXUC is one of the key LIIFCs and the largest one by total assets of the Pei County Government. As an essential entity for urban construction and operation, the Company is mainly responsible for infrastructure construction, resettlement housing construction, industrial park construction and land consolidation in the new town area and Pei County EDZ. Considering its large project reserves, we believe that the potential substitution of PXUC is relatively low and the Company is expected to maintain its importance for Pei County Government.

Good track record of receiving government support. In recognition of the importance of PXUC's businesses to Pei County, the Company has received comprehensive support from the government, in terms capital injections, cash injection, project repayments, and operating subsidies. From 2020 to 2023H1, the Company received capital injection of RMB3.0 billion in cash from the local government, substantially enhancing the capital strength of PXUC. Overall, we expect PXUC to receive ongoing government support in the next 12-18 months given its important role in the development of Pei County.

Diversified funding channels. PXUC has diversified financing channels including capital markets, bank borrowing and non-standard financing, which could partially relieve the pressure on debt repayment and capital expenditure. As of 30 June 2023, the Company has obtained total credit facilities of around RMB33.3 billion, with an unutilized amount of around RMB6.2 billion. The Company also has good access to onshore capital markets.

Credit Challenges

Medium exposure to commercial activities. Apart from infrastructure construction and resettlement housing business, PXUC also engages in other commercial activities including property development, industrial park construction, leasing, and commodity sales. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction businesses. The Company's exposure to commercial activities is considered medium, which accounted for 20%-30% of its total assets, based on our assessment.

Increasing debt burden driven by large investment needs. From 2020 to 2023H1, the Company's total debt increased to RMB37.8 billion from RMB20.6 billion. Its capitalization ratio, as measured by total debt to total capital, also increased to 63.5%. As of 31 March 2023, the Company has planned to invest more than RMB5.0 billion in key projects including infrastructure construction, resettlement housing, industrial park, and property development projects in 2023. We expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Moderate asset liquidity and medium level of contingent risk. As of 30 June 2023, the Company pledged some assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB5.9 billion, accounting for 44.6% of net assets. Furthermore, there's a risk of recovery from loans to some private-owned entities. The credit profile of PXUC is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company had outstanding external guarantees of RMB5.3 billion, accounting for 24.5% of its net assets.

Rating Outlook

The stable outlook on PXUC's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in the urban and industrial development of Pei County over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Pei County Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management and reduction in the exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) the Pei County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance or material increase in 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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