

## **CCXAP affirms the ratings of Kunshan Guochuang Investment Group Co., Ltd. at A<sub>g</sub>-, with stable outlook**

Hong Kong, 31 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Kunshan Guochuang Investment Group Co., Ltd. (“KGIG” or the “Company”) at A<sub>g</sub>-, with stable outlook; and affirmed its senior unsecured debt rating at A<sub>g</sub>-.

The A<sub>g</sub>- long-term credit rating of KGIG reflects Kunshan City Government’s very strong capacity and high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Kunshan City Government’s capacity to provide support reflects its strong comprehensive strength, ranking 1<sup>st</sup> among the Top 100 counties/county-level cities in China, with good fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in public policy activities of Kunshan Economic and Technological Development Zone (“Kunshan ETDZ”), which has a leading position among the national-level ETDZs; (2) solid track record of receiving government payments; and (3) good access to financing channels. However, the rating is constrained by the Company’s (1) high exposure to commercial activities, the profitability of which is susceptible to macro-environment and industry cyclicity; and (2) high financial leverage with short-term debt burden.

### **Corporate Profile**

Founded in 1992, KGIG is a local infrastructure investment and financing company (“LIIFC”) in Kunshan City, Suzhou City. The Company is primarily responsible for infrastructure construction and land development in Kunshan ETDZ, playing an important role in the urban development and operation of Kunshan City. The Company is also engaged in commercial activities such as real estate development and sales, property leasing, and sales of electronic appliances. As of 30 September 2023, the Company is directly and wholly owned by the State-owned Assets Supervision and Administration Office of Kunshan City Government (“Kunshan SASAO”).

### **Rating Rationale**

#### **Credit Strengths**

**Essential role in public policy activities of Kunshan ETDZ.** KGIG is mandated by the government to develop Kunshan ETDZ by undertaking public policy activities, such as infrastructure construction and land development in Kunshan City. KGIG has completed a series of large-scale infrastructure construction projects over the past few years, including roads, schools, bridges, and relocation houses, which significantly benefit people’s livelihood and promote the urbanization development of Kunshan City. Considering KGIG’s essential role in regional economic and social development in Kunshan ETDZ as well as Kunshan City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.



**Solid track record of receiving government payments.** KGIG has a proven track record of receiving government payments in the forms of government subsidies, asset, and cash injections, to support its businesses and operations. The Company also regularly received payments from the local government for its infrastructure construction projects under both agent construction and construction service model. Considering that the Company plays a strategic position in regional economic and social development in Kunshan City, we expect the Company will continue to receive support from the local government over the next 12 to 18 months.

**Good access to financing channels.** KGIG has sufficient stand-by liquidity and diversified funding channels, including bank loans, bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. Furthermore, KGIG has a proven track record of financing from both onshore and offshore debt capital markets and equity capital market. In addition, the Company maintained a manageable exposure to non-standard financing, accounting for around 10% to 15% of its total debt as of 30 September 2023.

#### **Credit Challenges**

**High exposure to commercial activities.** KGIG is also engaged in other commercial activities such as sales of electronic appliances, real estate development and sales, and property leasing. Based on our assessment, KGIG's commercial activities exposure is high, accounting for more than 30% of its total assets.

**High financial leverage with short-term debt burden.** KGIG's debt has kept increasing over the recent years mainly attributable to the ongoing financing for the infrastructure construction and property development projects. As of 30 September 2023, its total debt (including perpetual debts) increased to RMB59.5 billion from RMB56.2 billion as of 30 September 2022. The Company's total capitalization ratio gradually increased to a relatively high level of around 67.7% as of the same date. We expect that the debt leverage will remain at a relatively high level in the next 12-18 months, considering the capital needs from project construction.

#### **Rating Outlook**

The stable outlook on KGIG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role in Kunshan ETDZ.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreasing exposure to commercial activities or improving debt management.

#### **What could downgrade the rating?**



The rating could be downgraded if (1) the local 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 reducing strategic significance or weakening access to financing channels.

### **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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