

## Credit Opinion

17 April 2025

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub> +
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Chongqing Nan'an Urban Construction & Development (Group) Co. Ltd.

### Surveillance credit rating report

### CCXAP affirms Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook

#### Summary

The BBB<sub>g</sub> long-term credit rating of Chongqing Nan'an Urban Construction & Development (Group) Co., Ltd. ("CQNA" or the "Company") reflects Nan'an District Government's (1) strong capacity to provide support; and (2) extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the Nan'an District Government's capacity to provide support reflects Nan'an District's status as one of nine core districts in Chongqing City, with relatively good fiscal stability and moderate fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position of public policy projects in Nan'an District; (2) solid track record of receiving local government support; and (3) diversified access to funding.

However, the rating is constrained by the Company's (1) moderate asset liquidity; and (2) high debt leverage, with relatively a high proportion of bond financing.

The stable outlook on CQNA's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its key role as the largest entity to undertake municipal infrastructure projects and the only entity to undertake shantytown renovation projects in Nan'an District.

## Rating Drivers

- Dominant position of public policy projects in Nan'an District
- Low exposure to commercial activities
- Solid track record of receiving local government support
- High debt leverage, with a relatively high proportion of bond financing
- Moderate asset liquidity
- Diversified access to funding

## Rating Sensitivities

### 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 company's characteristics enhance local government's willingness to provide support, such as improvement on asset liquidity and debt management.

### 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 company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

## Key Indicators

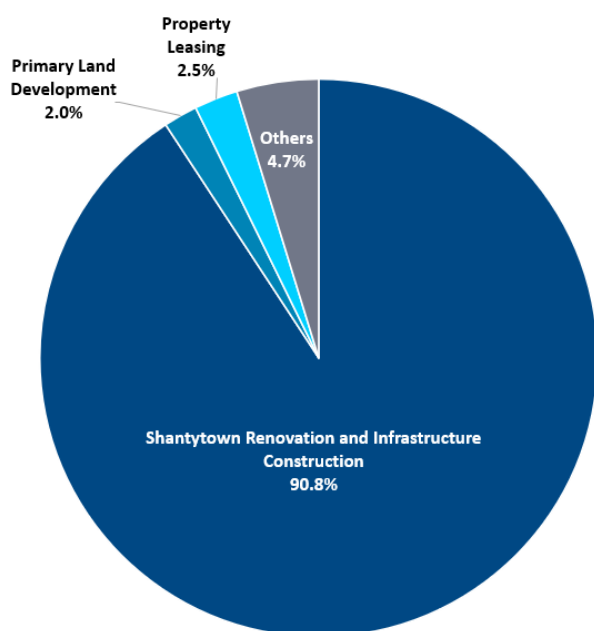
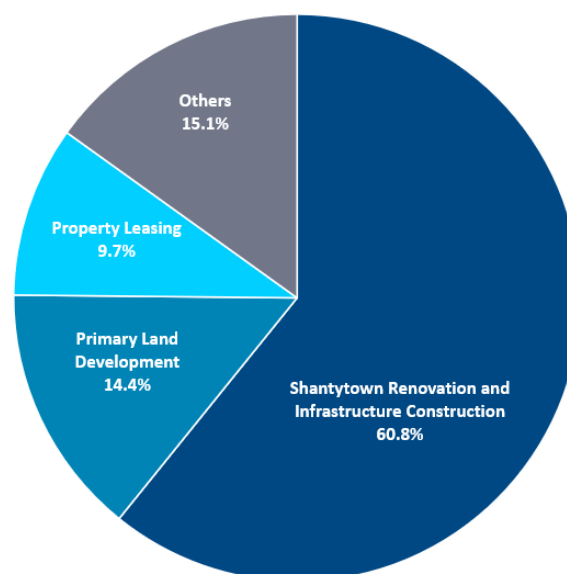
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	70.3	70.7	67.6	65.7
Total Equity (RMB billion)	23.0	22.2	22.8	21.2
Total Revenue (RMB billion)	4.2	4.5	4.7	2.8
Total Debt/Total Capital (%)	59.0	59.6	57.3	56.7

All ratios and figures are calculated using CCXAP's adjustments.

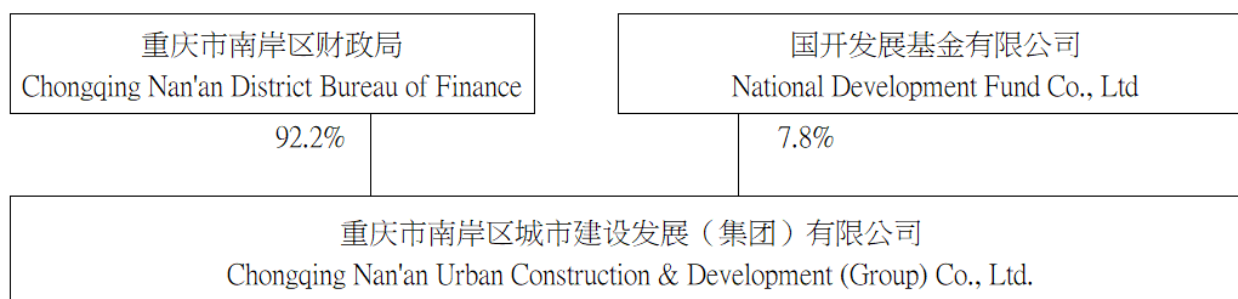
Source: Company data, CCXAP research

## Corporate Profile

Founded in 2003, CQNA is the largest infrastructure investment and financing platform in terms of total assets in Chongqing Nan'an District, primarily undertaking infrastructure construction, shantytown renovation, and primary land development. In addition, the Company is also engaged in a number of commercial businesses, such as tourism highway operations, and property leasing business. It is directly owned by Chongqing Nan'an District Bureau of Finance, and ultimately supervised by Chongqing Nan'an District Government. As of 30 September 2024, Chongqing Nan'an District Bureau of Finance held 92.2% of the Company's shares, and National Development Fund Co., Ltd. held the remaining 7.8%.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding chart as of 30 September 2024**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Nan'an District Government has a strong capacity to provide support to the Company, given its status as one of nine core districts in Chongqing City, with relatively good fiscal stability and moderate fiscal balance.

Nan'an District is a municipal district of Chongqing City, while Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing, are the three major industries in Chongqing. Thanks to the vigorous development of the industrial sector, Chongqing's economy has demonstrated a growth trend. In 2024, Chongqing recorded a gross regional product ("GRP") of RMB3.2 trillion, ranking 4<sup>th</sup> among municipalities and prefecture-level cities in China, with a GRP growth rate of 5.7% year-on-year ("YoY"). The general budgetary revenue of Chongqing increased from RMB244.1 billion in 2023 to RMB259.5 billion in 2024. The direct government debt balance of Chongqing increased to RMB1,442.5 billion in 2024, accounting for 44.8% of its GRP for that year. We expect that Chongqing City will continue to serve as an important strategic city for

the development of Western China, as well as a connecting point between the "Belt and Road" and the Yangtze River Economic Belt, and will play a unique and important role in China's regional development and opening-up policy. However, the heavy debt burden of Chongqing might affect the regional financing.

#### **Exhibit 4. Key Economic and Fiscal Indicators of Chongqing City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	2,912.9	3,014.6	3,219.3
GRP Growth (%)	2.6	6.1	5.7
General Budgetary Revenue (RMB billion)	210.3	244.1	259.5
General Budgetary Expenditure (RMB billion)	489.3	530.5	562.1
Local Government Debt (RMB billion)	1,007.1	1,225.8	1,442.5

Source: Statistic Bureau of Chongqing City, CCXAP research

Located in the southwest of Chongqing City, Nan'an District is one of nine core districts in Chongqing City and part of the "Core Area Surrounded by Two Rivers and Four Banks". The economic development of Nan'an District relies on the advanced manufacturing industry and modern services industry. Nan'an District's GRP increased by 5.9% YoY to RMB113.1 billion in 2024. The general budgetary revenue of Nan'an District amounted to RMB6.5 billion in 2024, with the tax revenue accounting for about 66.2% of general budgetary revenue on average, indicating relatively good fiscal stability. Nan'an District has moderate fiscal self-sufficiency. In 2024, its fiscal balance ratio was 53.0%. Nan'an District Government's debt has shown an increasing trend, accounting for 30.4% of its GRP at end-2024.

#### **Exhibit 5. Key Economic and Fiscal Indicators of Nan'an District**

	2022FY	2023FY	2024FY
GRP (RMB billion)	92.2	98.5	113.3
GRP Growth (%)	0.1	6.7	5.9
General Budgetary Revenue (RMB billion)	5.7	6.6	6.5
General Budgetary Expenditure (RMB billion)	9.1	9.7	12.2
Local Government Debt (RMB billion)	25.3	30.2	34.4

Source: Statistic Bureau of Nan'an District, CCXAP research

### **Government's Willingness to Provide Support**

#### **High strategic importance to the development of Nan'an District**

CQNA is the largest entity to undertake municipal infrastructure construction projects and the only entity to undertake shantytown renovation projects in Nan'an District. It is also one of the few entities to undertake primary land development in Nan'an District. Since its establishment, the Company has undertaken and completed a large number of projects of high strategic importance to the development of Nan'an District. Accordingly, this has well-positioned the Company to become a key entity in implementing the local government's blueprint for developing Nan'an District. Given its strategic positioning in Nan'an District, we expect that the Company's important role will not be easily replaced by other companies in the foreseeable future.

#### **Dominant position of public policy projects in Nan'an District**

As the main force for primary land development and infrastructure construction in Nan'an District, CQNA has played a key role in implementing the local government's development plan for Nan'an District. The Company

has undertaken and completed a number of important municipal infrastructure construction and shantytown renovation projects in Nan'an District. We expect that the Company's vital position in Nan'an District could ensure its business sustainability of public policy projects.

Commissioned by the local government, CQNA has continued to operate an infrastructure construction business in Nan'an District, with stable development momentum. As of 30 September 2024, the Company had completed several major infrastructure construction projects, with a total investment of RMB3.8 billion and received payments of RMB2.5 billion. However, there are still multiple infrastructure construction projects in the pipelines, exerting relatively high capital expenditure pressure on the Company, while special bond funds received for infrastructure construction projects can alleviate part of the capital expenditure pressure. As of 30 September 2024, the Company had eight infrastructure construction projects under construction or planning, including roads and hospitals, with a total estimated investment of RMB6.4 billion.

In addition, CQNA has undertaken several shantytown renovation projects in Nan'an District under the government procurement model on an exclusive basis. As of 30 September 2024, the Company has invested a total of RMB17.1 billion in the shantytown renovation projects which have been almost completed, and there are no planned projects in the future. The Company will continue to undertake key projects across Nan'an District, such as urban renewal and parking lot construction. Moreover, the payment collection cycle for shantytown renovation is relatively long, and the amount of unreceived funds is substantial.

Moreover, authorized by the local government to undertake land consolidation business in Nan'an District, CQNA has continued to demonstrate its regional dominance in primary land development. As the Company has basically completed the land consolidation of its land reserves, it has not made any investment in the land consolidation business since 2023. As of 30 September 2024, the Company had two parcels of land under consolidation, with an estimated total investment of RMB5.6 billion and an outstanding balance of merely RMB290.0 million. In the future, the Company will integrate land resources to revitalize land assets. However, the primary land development business is highly susceptible to the condition of the local land market, resulting in its fluctuations.

### **Low exposure to commercial activities**

In addition to public activities, CQNA is also involved in various commercial activities such as tourism highway operation and property leasing. We consider CQNA's commercial business exposure to be low, as its market-driven businesses account for less than 10% of its total assets.

As the most important state-owned assets operation entity in Nan'an District, the Company is engaged in the property leasing business, including office spaces, residential houses, and factory buildings. As of 30 September 2024, the Company had a total leasable area of approximately 0.9 million square meters and an occupancy rate of 90%. Because the number of leasable properties has decreased compared to 2022, and the Nanping Subdistrict in Nan'an District has shifted from being operated by an external operator to being operated by the Company itself, the overall occupancy rate has decreased. In 2023, the Company achieved a housing leasing revenue of RMB118.9 million, with a relatively high gross profit margin of about 43.7%. Moreover, CQNA owns the operation rights of the Nanshan Tourism Highway, which has provided the Company with a stable income. In 2023, the tourism highway operation business received a revenue of RMB7.6 million. While the small operating scale of commercial activities limits its commercial business exposure, it also limits its contribution to the Company's cash flow.

### **Solid track record of receiving local government support**

As the most important infrastructure construction and state-owned assets operation entity in Nan'an District, CQNA has a track record of receiving payments from Nan'an District Government. These payments come in various forms, including financial subsidies and project payments. From 2023 to 2024Q3, the Company had received government subsidies of RMB754.1 million from Nan'an District Government. The Company also regularly receives project payments for its public projects. Given CQNA's important strategic role and its contribution to the regional economic development, we expect the Company will continue to receive support from Nan'an District Government in the future.

### **High debt leverage, with a relatively high proportion of bond financing**

Despite the ongoing construction of public activities projects, the Company actively reduces its debt amount, showing relatively good debt management. Its total debt had decreased from RMB32.7 billion at end-2022 to RMB27.7 billion as of 30 September 2024, yet maintaining a relatively high capitalization ratio of 56.7%. As of 30 September 2024, its short-term debt amounted to RMB5.5 billion, accounting for 19.8% of total debt. However, the Company has certain short-term repayment pressure, with a cash-to-short-term debt ratio of 0.1x. As of 30 September 2024, approximately RMB3.8 billion of debt will be expired in 2025, posing certain refinancing risks for the Company. Additionally, more than half of the bond financing was obtained through offshore bonds, which are vulnerable to fluctuations in offshore capital markets and exchange rates. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

### **Moderate asset liquidity**

CQNA's asset liquidity is moderate, as most of its assets are inventories and receivables with low liquidity, causing capital occupation. As of 30 September 2024, the Company's inventories amounted to RMB18.6 billion, accounting for 28.3% of total assets. Most of the inventories were development costs from infrastructure projects and land reserves. Although the Company received some of the uncollected payments from the local government, it still maintained a relatively high proportion of the Company's assets. Its total receivables amounted to RMB30.7 billion (2022: RMB32.1 billion), accounting for 46.8% of total assets. The total receivables mainly consisted of advances for the shantytown renovation business, and uncollected project payments from the local government and other state-owned enterprises in Nan'an District. Nevertheless, the Company's operating assets, such as investment properties, can generate a certain scale of cash inflows annually.

### **Diversified access to funding**

CQNA has diversified sources of funding mainly including bank loans and bond issuances. Around 37.3% of its debt was bank loans. As of 30 September 2024, it held a total available credit facilities of RMB9.0 billion. The Company has a track record of fund-raising activities in both onshore and offshore debt capital markets, including the issuance of MTNs, PPNs, private bonds, and USD bonds. Bond issuance accounted for about 59.8% of its total debt. Large reliance on bond financing may make the Company vulnerable to the fluctuations of the capital market. Since 2023, the Company has been actively repaying part of its offshore debts in advance to reduce its dependence on bond financing. In addition, the Company has low reliance on non-standard financing, which accounted for 2.8% of its total debt.

## **ESG Considerations**

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge, and other environmental matters issued by the national

governmental authorities. CQNA assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CQNA is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Nan'an District. Demographic changes, public awareness, and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. We believe that CQNA complies in all material respects with the applicable governmental regulations, rules, and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

### **Structural Considerations**

We did not notch CQNA's senior unsecured debts rating for structural subordination, reflecting our expectation that in the event of financial distress, the government will likely provide support to the Company, thereby increasing the recovery prospects for the Company's creditors. We also see that the structural subordination risk is mitigated by the strategic importance of CQNA's infrastructure and public facility assets, thus we expect that government support will be provided to the Company to preserve its ownership of such assets.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).



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