

Credit Opinion

6 June 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Chongqing Nanzhou Water Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Chongqing Nanzhou Water Group Co Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Chongqing Nanzhou Water Group Co., Ltd. ("CNWG" or the "Company") reflects Qijiang District Government's (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Qijiang District Government's capacity to provide support reflects Qijiang District's steady economic growth, but is constrained by its 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 water supply platform outside the main urban area; (2) large project reserves in water conservancy construction; and (3) solid track record of receiving government support, especially for the construction of water conservancy projects.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; (2) weak asset liquidity; and (3) relatively high short-term debt repayment pressure.

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.

Rating Drivers

- Important role as the sole water conservancy construction entity in Qijiang District
- Large project reserves in water conservancy construction
- Moderate exposure to commercial activities
- Solid track record of receiving government support
- Relatively high short-term debt repayment pressure
- Weak asset liquidity
- Access to diverse financing channels
- Certain exposure to contingent liability risk

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 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.

Key Indicators

	2022FY	2023FY	2024FY
Total Asset (RMB billion)	23.7	25.2	24.3
Total Equity (RMB billion)	13.9	14.0	14.1
Total Revenue (RMB billion)	0.8	0.7	0.7
Total Debt/Total Capital (%)	31.7	34.6	31.9

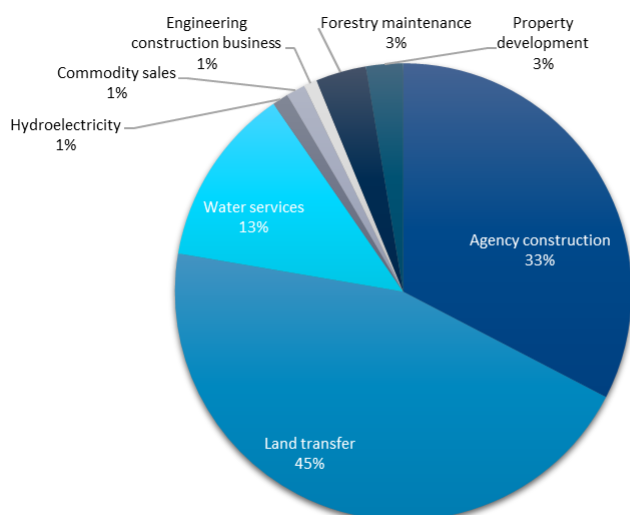
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company Data, CCXAP research

Corporate Profile

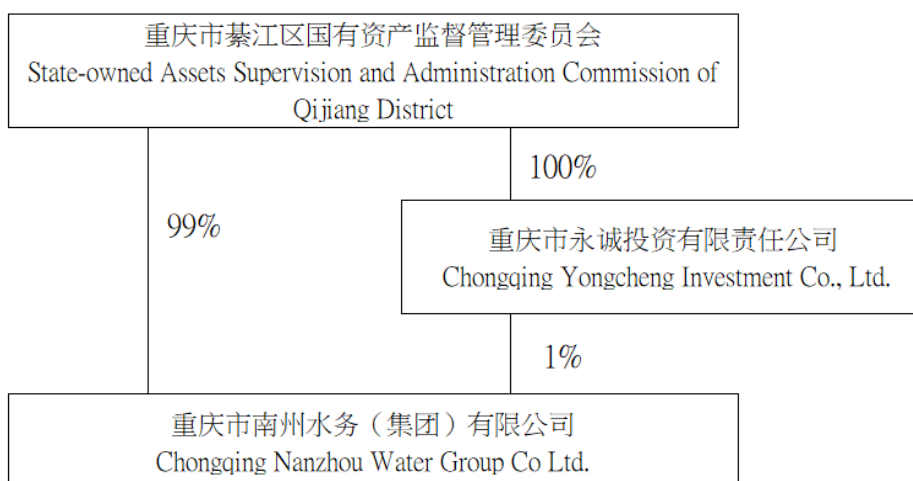
Formerly known as Qijiang County Yunan Water Conservancy and Hydropower Engineering Development Co., Ltd., CNWG was founded in 2002 and is one of the major local infrastructure investment and financing companies ("LIIFCs") in Qijiang District. It is the only platform engaged in the construction of water conservancy facilities. The Company is also responsible for public utility services 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 property development, engineering construction, and forestry maintenance. As of 31 December 2024, the State-owned Assets Supervision and Administration Commission of Qijiang District ("Qijiang SASAC") was the ultimate controller of the Company by holding 99% of its shares, and the remaining 1% of shares was held by Chongqing Yongcheng Investment Co., Ltd.

Exhibit 1. Revenue structure in 2024



Source: Company information, CCXAP research

Exhibit 2. Shareholding structure as of 31 December 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Qijiang District Government has a relatively strong capacity to provide support to the Company, given its steady economic growth, but constrained by its modest fiscal profile.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2024, Chongqing City's gross regional product ("GRP") increased by 5.7% year-on-year ("YoY") to RMB3.2 trillion, ranking 4th among municipalities and prefecture-level cities in China. At the same time, the general budgetary revenue of Chongqing increased from RMB244.1 billion in 2023 to RMB259.5 billion

in 2024, up 6.3% YoY. However, Chongqing City has a relatively weak self-sufficiency, with fiscal balance ratios (general budgetary revenue/general budgetary expenditure) of around 46.2% in 2024. The debt profile of Chongqing Municipal Government is relatively weak. The outstanding direct government debt balance of Chongqing increased to RMB1.4 trillion in 2024, accounting for 44.8% of its GRP for that year.

Exhibit 3. 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

Qijiang District is located in the south of Chongqing City, with a total area of 2,747 square kilometers. It is an important node on the new western land-sea corridor, and an important material distribution center in southern Chongqing and northern Guizhou, with a prominent position as a transportation hub. As the only district and county mentioned in the “*Planning Outline for the Construction of the Chengdu-Chongqing Economic Circle*”, Qijiang District has undertaken key infrastructure construction in the region. We expect the advantageous location of Qijiang District reinforce its policy importance to southwest China, and therefore, is likely to warrant continuous support from the Chongqing Municipal Government given national development strategy. In recent years, Qijiang District’s economy has continued to grow and develop, relying on pillar industries such as energy, metallurgy, coal chemical industry, equipment manufacturing, new materials, and food processing. With good location advantages and natural resources, Qijiang District’s economic scale improved steadily. In 2024, the GRP of Qijiang District increased by 5.5% YoY. In 2024, Qijiang District reported a general budgetary revenue of RMB2.3 billion, of which tax revenue accounted for 53.0%, representing a relatively weak fiscal self-sufficiency. Meanwhile, its fiscal balance is weak. In 2024, its fiscal balance ratio was 26.6%, indicating high reliance on the income from land market and the income transferred from the higher-tier government. The outstanding debt of Qijiang District in 2024 was RMB27.4 billion, accounting for 38.3% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Qijiang District

	2022FY	2023FY	2024FY
GRP (RMB billion)	77.1	-	-
GRP Growth (%)	3.0	6.5	5.5
General Budgetary Revenue (RMB billion)	2.1	2.3	2.3
General Budgetary Expenditure (RMB billion)	7.1	8.2	8.6
Local Government Debt (RMB billion)	18.5	20.8	27.4

Source: Statistic Bureau of Qijiang District, CCXAP research

Government’s Willingness to Provide Support

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

CNWG is the only platform to undertake water conservancy construction and operation in Qijiang District, and is responsible for water supply within Qijiang District other than the main urban area. The Company is also mandated by the local government to undertake local public activities, such as infrastructure construction, land transfer, sewage treatment and hydroelectric power generation. Considering the Company’s important strategic

role in the development of Qijiang District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Large 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. It is also responsible for water supply and land development in the region. The sufficient project reserves demonstrated the high sustainability of the Company's public-policy businesses.

The Company continues to carry out water conservancy construction projects by signing agency construction agreements with the entrusting parties. The initial construction cost of the Company's water conservancy projects was partly supported by the government's special funds, which can ease the Company's investment pressure. At end-2024, the Company had completed 5 agency construction projects with an invested amount of RMB927 million, a recognized revenue of RMB1.1 billion and a received repayment of RMB999 million. From the perspective of project reserves, as of 31 December 2024, the Company had 7 infrastructure construction projects under construction, with a total planned investment of RMB3.5 billion and an outstanding amount of RMB1.7 billion. Furthermore, the Company had 2 projects under planning with a total planned investment of around RMB1.8 billion, which will be supported by national project special fund covering 80% of the capital expenditure.

In addition, CNWG undertakes water supply business outside the main urban area of Qijiang District with regional monopoly advantages, providing water sourcing, water supply, sewage treatment and hydroelectric power generation business. The Company owns most of the water supply plants outside the main urban area of Qijiang District through government allocation and asset acquisition itself. As of 31 December 2024, the Company had 38 water supply plants with a daily water supply capacity of 106,200 tons. The Company runs a sewage treatment business through 6 sewage treatment plants, including 3 park sewage treatment plants and 3 township sewage treatment plants, with a daily sewage treatment capacity of 24,400 tons. Moreover, the hydroelectric power generation business was carried out through 4 hydroelectric power plants with a total installed capacity of 2.6 million kilowatts. However, the profitability of the Company's water supply business is affected by the water sourcing service and hydroelectric power generation business, as the water sourcing service business has been in losses due to the relatively high depreciation of reservoir assets. Overall, we believe that, as these public services are vital to local populations, the replacement costs of the Company's role will be relatively high.

CNWG is entrusted by the local government to undertake land development projects in Qijiang District. This business is one of the Company's major sources of income, which accounted for 45.1% of the total revenue in 2024. From 2023 to 2024, the local government had taken back 578.8 mu of land with compensation. However, the payback from land transfer is subject to the prosperity of the land market and the planning of the Qijiang District Government. The Company also owns a relatively large amount of consolidated land of around 2 million square meters, indicating that its land transfer business has strong sustainability. However, the land development business is subject to the changes in land market and government policies.

Moderate exposure to commercial activities

In addition to public activities, CNWG is involved in various commercial activities such as property development, commodity sales, engineering construction, and forestry maintenance. These activities have been a good supplement to the Company's operating revenue but would pose the Company to related business risks. We

consider CNWG's commercial business exposure to be moderate, as its market-driven businesses account for around 18% of its total assets. However, we expect the Company's exposure to commercial businesses would be largely stable because of the Company's plan to focus on water conservancy related businesses and the transfer out of its subsidiaries for engineering construction and scenic spot operation businesses since 2024.

CNWG engages in property development business by acquiring land parcels through the open market and entrusts construction companies to implement the construction of commercial property development. The business is susceptible to the volatility of the local real estate market, which may lead to fluctuations in its property sales. As of 31 December 2024, the Company had completed 3 real estate projects, most of which had been sold, but due to high costs and low sales prices, the property sale business has continued to record losses in the past three years. The Company had no real estate development project under construction or under planning, indicating low sustainability of this business.

In addition, CNWG carries out forestry maintenance business by signing an agreement for 20 years with Chongqing Nanzhou Tourism Development Construction Investment (Group) Co., Ltd., which is a state-owned enterprise in Qijiang District. CNWG is responsible for maintenance and upkeep work for scenic spots, forest farms, and forest barriers in Qijiang District and receives payments based on maintenance costs plus a certain markup. The forestry maintenance business generates stable income of RMB23.6 million every year, however, the gross profit margin of the business is as low as 3.6%.

The Company also engages in commodity sales and property leasing business, which accounted for less than 5% of total revenue. Their relatively small operating scale limits their contribution to the Company's revenue and profit. The Company was engaged in engineering construction projects in Qijiang District through the public market. Because the engineering construction segment was transferred out in 2024, which negatively impact the Company's income generation in 2024. The income of engineering construction business accounted for around 5.3% of total revenue in 2023 and 1.3% in 2024, respectively.

Solid track record of receiving government support

As the only water conservancy construction entity in Qijiang District, CNWG has a good track record of receiving support from the Qijiang District Government. These payments take various forms, such as government subsidies and capital injections. The Company also regularly receives repurchase payments for its water conservancy construction projects, infrastructure construction projects, and land transfer projects. In 2022, the local government transferred operation rights of river sand resources in the section of the river from Sanjiang to Qianshui, with a book value of RMB2.0 billion, to the Company without compensation, enhancing its asset scale. From 2023 to 2024, the Company had received a total operating subsidies of RMB429.0 million from the local government. Benefiting from special refinancing bonds for debt reduction, the regional financing situations have improved significantly since 2024. Considering the Company's policy role as the sole water conservancy construction entity and the important water supplier in Qijiang District, we expect government support for CNWG to continue in the next 12 to 18 months.

Relatively high short-term debt repayment pressure

As of 31 December 2024, CNWG's total debt had decreased to RMB6.6 billion from RMB7.4 billion at end-2023. The decrease in debt was mainly attributable to the transferring out of subsidiary and the decline in financing activities since 2023. The Company has maintained a reasonable debt leverage, with a capitalization ratio of 31.9% as of 31 December 2024. However, the Company has relatively high short-term debt burden and short-term debt repayment pressure. As of 31 December 2024, the short-term debt accounted for 29.3% of the total

debt and the cash to short-term debt ratio was 0.1x, indicating that the debt structure is needed to be improved. Given that the Company's future capital expenditure for its water conservancy construction projects was mostly supported by government special funds, we expect the Company's debt growth will be stable for the next 12-18 months.

Weak asset liquidity

CNWG asset liquidity is relatively weak. The Company's total asset mainly consists of inventories, receivables, contract assets, and construction in progress, which accounted for 66.2% of its total assets at end-2024. Inventories are mainly land and investment costs for infrastructure construction projects, while receivables are mainly unreceived payments from government agencies or other state-owned companies, all of which are considered low liquidity. Meanwhile, the Company held a number of investment properties and intangible assets, which accounted of around 9.7% of total assets, generating supplementary income to the Company.

Access to diverse financing channels

CNWG has access to various sources of funding, mainly including bank loans and onshore bond financing, which accounted for 60.4% and 36.0% at end-2024, respectively. The Company has good relationships with various domestic banks. At end-2024, it held total credit facilities of RMB6.9 billion and available credit facilities of RMB1.1 billion. The Company also has access to funding from bond market. As of the end of 2024, the Company had raised around RMB7.5 billion from the onshore bond market via the issuance of PPNs and corporate bonds, and the Company had an outstanding amount of RMB2.4 billion. In addition, the Company has a low exposure to non-standard financing, including financial leasing, which accounted for about 3.6% of total debt financing at end-2024. The Company's average financing cost was at around 4.7% as of 31 December 2024. Given its limited credit facilities available and the relatively high financing costs, we believe additional funding channels, such as increasing credit facilities, are needed to satisfy the Company's large capital expenditure needs.

Certain exposure to contingent liability risk

We consider that the Company's contingent liability risk is relatively controllable. As of 31 December 2024, the Company's external guarantees amounted to RMB2.6 billion, accounting for 18.5% of its net assets. All the external guarantees were provided to local state-owned enterprises in Qijiang District. However, if a credit event occurs in Qijiang District, it may lead to large-scale cross-default.

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. CNWG 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.

CNWG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Qijiang District. Demographic changes, public awareness and social priorities shape government's development strategies and 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.

CNWG believes that it is in compliance 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.

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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