Credit Opinion

14 July 2026

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

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Chongqing Tongnan Construction Engineering (Group) Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Chongqing Tongnan Construction Engineering (Group) Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Chongqing Tongnan Construction Engineering (Group) Co., Ltd. ("CTCE" or the "Company") reflects Chongqing Tongnan District Government's strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the Tongnan District Government's capacity to provide support reflects the status of Tongnan District as a key westward gateway for Chongqing City and the continued economic growth, but constrained by moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in project construction and state-owned asset operation in Tongnan 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) high exposure to commercial activities; and (2) increasing debt burden driven by capital expenditures on construction projects; (3) relatively high contingent liability risks.

The stable outlook on CTCE's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain important role in project construction and state-owned asset operation of Tongnan District over the next 12 to 18 months.

Rating Drivers

- Important role in project construction and asset operation in Tongnan District
- High exposure to commercial activities
- Solid track record of receiving local government support
- Increasing debt burden driven by capital expenditures on construction projects
- Diversified access to funding
- Relatively high contingent liability risks

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 such as lowers the exposure to risky commercial activities, and improved 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, decreased government support, or weakened financing capabilities.

Key Indicators

	2023FY	2024FY	2025FY	2026Q1
Total Assets (RMB billion)	12.0	13.3	16.9	18.7
Total Equity (RMB billion)	4.7	5.6	5.9	5.9
Total Revenue (RMB billion)	0.5	0.8	1.0	0.4
Total Debt/Total Capital (%)	46.0	55.8	63.2	66.7

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2017, CTCE is a key local infrastructure investment and financing platform ("LIIFC") in Tongnan District, primarily undertaking infrastructure construction, resettlement housing construction, and urban asset operation. In addition, the Company is also engaged in commercial businesses, such as construction materials and contract processing, and leasing. As of 31 March 2026, the Company was wholly owned and controlled by the State-owned Assets Supervision and Administration Committee of Tongnan District, Chongqing Municipality ("Tongnan SASAC") through Chongqing Tongnan District Urban Development (Group) Co., Ltd. ("CTUD").

Exhibit 1. Revenue structure in 2025

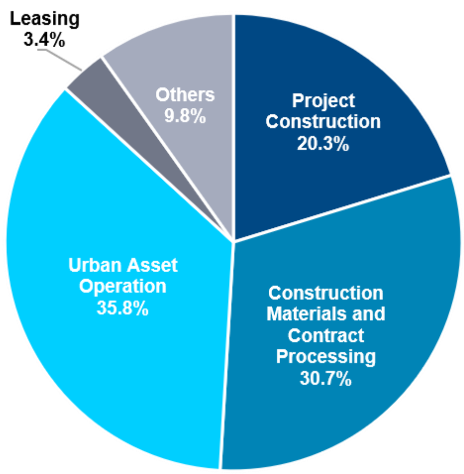
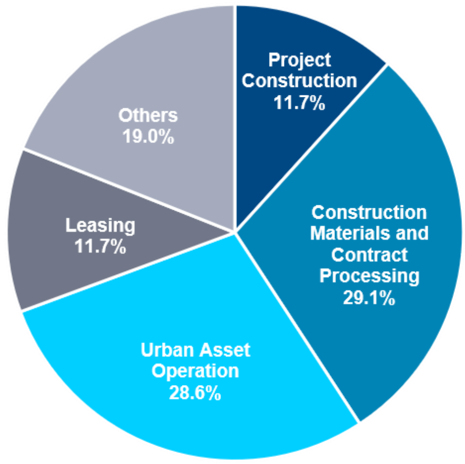
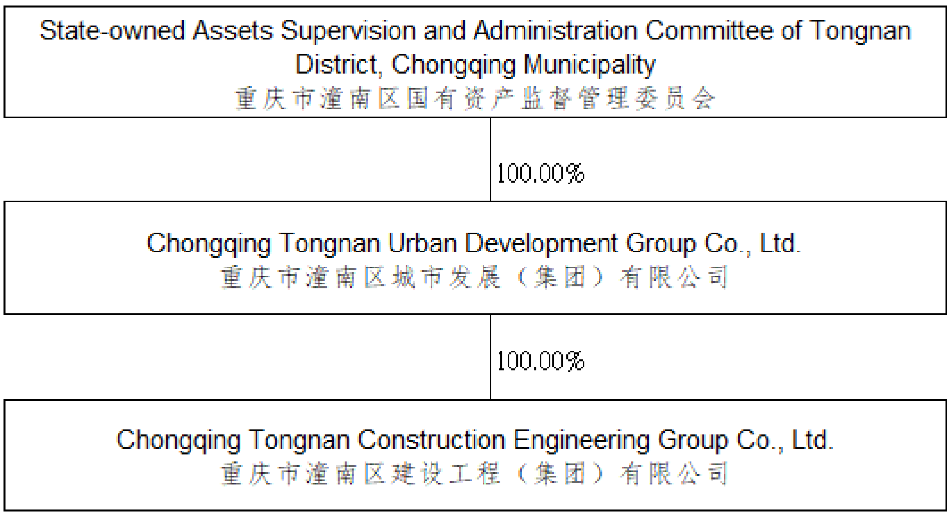


Exhibit 2. Gross profit structure in 2025



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2026



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Tongnan District Government has a strong capacity to provide support to the Company, given its status as a key westward gateway for Chongqing City and the continued economic growth, but constrained by moderate fiscal metrics.

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 vigorous industrial development, Chongqing's economy has shown growth. In 2025, Chongqing's GRP increased by 5.3% year-on-year ("YoY") to RMB3.4 trillion. In the first quarter of 2026, its GRP was RMB792.3 billion, up 4.5% YoY. The general budgetary revenue of Chongqing increased from RMB259.6 billion in 2024 to RMB273.6 billion in 2025. As of 31 December 2025, Chongqing's outstanding government debt balance increased to RMB1,678.2 billion, accounting for 49.7% of GRP. 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, Chongqing's heavy debt burden might affect regional financing.

Exhibit 4. Key Economic and Fiscal Indicators of Chongqing City

	2023FY	2024FY	2025FY
GRP (RMB billion)	3,014.6	3,219.3	3,375.8
GRP Growth (%)	6.1	5.7	5.3
General Budgetary Revenue (RMB billion)	244.1	259.6	273.6
General Budgetary Expenditure (RMB billion)	530.5	562.1	569.1
Local Government Debt (RMB billion)	1,225.8	1,442.5	1,678.2

Source: Statistic Bureau of Chongqing City, CCXAP research

Tongnan District sits at the convergence of the one-hour economic circles of Chongqing and Chengdu City, acting as the forefront of the Chengdu-Chongqing integrated development and a key gateway for Chongqing's opening-up to the west. In recent years, Tongnan District has vigorously implemented the strategy of strengthening the district through industrial development, with a focus on building three 20-billion-yuan-level industrial clusters in equipment manufacturing, new chemical materials, and specialty consumer goods, as well as two 10-billion-yuan-level industrial clusters in green building materials and energy conservation and environmental protection. As a result, the industrial economy has become the primary driver of the district's regional economic growth. Supporting by its solid industrial foundation, Tongnan District recorded a continuous economic growth over the past three years. In 2025, its GRP increased by 6.2% YoY. Meanwhile, its general budgetary revenue would have recorded an increase of 6.6% YoY to RMB4.3 billion. However, the average general budgetary revenue/general budgetary expenditure ratio was moderate at 45.0% over the past three years. Tongnan District Government highly relied on the transferred income from higher tier government with an average amount over the past three years of RMB3.9 billion. As of end-2025, Tongnan District Government’s outstanding direct debt amounted to RMB20.0 billion, accounting for about 39.8% of GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Tongnan District

	2023FY	2024FY	2025FY
GRP (RMB billion)	-	47.3	-
GRP Growth (%)	6.8	5.7	6.2
General Budgetary Revenue (RMB billion)	3.5	4.0	4.3
General Budgetary Expenditure (RMB billion)	8.1	8.8	9.3
Local Government Debt (RMB billion)	14.4	16.9	20.0

Source: Statistic Bureau of Tongnan District, CCXAP research

Government’s Willingness to Provide Support

Important role in project construction in Tongnan District

As one of the important LIIFCs of Tongnan District, CTUD is the main entity undertaking infrastructure construction and state-owned assets operation in Tongnan District. CTCE is a major subsidiary of CTUD, mainly involved in local project construction such as infrastructure construction and resettlement housing construction in Tongnan District. The Company takes part in project construction mainly through agency construction model and self-construction model. Under the agency construction model, the Company is entrusted to be responsible for financing and constructing the projects. The Company receives project repayments from the entrusting parties based on the total cost plus a few percentage markups after examination. As of 31 December 2025, the Company had 20 projects under construction, such as resettlement housing project, urban village redevelopment project, green and sustainable integrated management project, and upgrade and renovation project of Tongnan Railway Station and supporting facilities, with a total investment of approximately RMB4.2 billion and uninvested amount of RMB2.8 billion. Meanwhile, the Company has several projects under planning, with a total planned investment of more than RMB5.0 billion. The Company has sufficient project reserves to support the good stability and sustainability of the project construction business, but also creates relatively high investment pressure. The Company also engages in infrastructure construction through engineering construction services.

High exposure to commercial activities

CTCE is also involved in various commercial activities, such as asset operation and leasing, and construction materials and contract processing businesses. We consider CTCE's commercial business exposure is relatively high, as its market-driven businesses account for more than 30% of its total assets as at end-March 2026.

In response to the demand for asset revitalization within the region, the Company also engages in urban asset operation business in Tongnan District. The Company's urban asset operation business includes the leasing of parking spaces, operating rights for river dredging and desilting and housing and pipelines, as well as the operation of landfill sites and gas station. In relation to its parking space leasing business, the Group has obtained operating rights to public parking spaces in core areas of Tongnan District through government allocation and transfer, with terms generally ranging from 10 to 15 years, and generates income through direct collection of parking fees with its own platform as well as through the outsourcing of certain parking spaces to third-party operators. Regarding the operation of landfill sites, the Group holds the concession right to operate the Jinfu Area landfill site in Tongnan District for a term of 30 years and derives income from the operation of the relevant charging rights through arrangements with the operator. In terms of river dredging and desilting, the Group has acquired operating rights in respect of certain river sections and currently generates income by contracting out such rights to a third party, Chongqing Tongnan District Tongze Environmental Governance Engineering Co., Ltd.

From 2023 to 2025, the Company's asset operation and leasing business generated revenue of RMB246.0 million, RMB379.0 million and RMB386.1 million, respectively, representing 39.2% of the Company's total operating income in 2025. The gross profit margin of the urban asset operation business was 15.0% at the same time. In addition to revitalizing regional assets, this business provides the Company with a relatively stable stream of income.

The Company's construction materials and contract processing business is divided into concrete processing and sales business and sand and gravel sales business. From 2023 to 2025, income generated from the Company's construction materials and contract processing business increased from RMB143 million to RMB301.9 million. The Company's concrete processing business primarily involves commercial concrete sales and contract manufacturing services. Raw materials, including sand, gravel, cement, and admixtures, are sourced from suppliers, with sand and gravel supplied by internal subsidiaries and other materials procured via tenders to construction firms. Payment is settled as 80% upon acceptance of the materials and the remaining 20% within six months of project completion. Additionally, the Company provides toll-processing services for rural road projects in Tongnan District, charging processing fees accordingly. The Company's upstream and downstream concentration risk in this business is relatively high, with the top five suppliers and customers accounting for 86.7% and 98.6%, respectively, in 2025.

The Company has sourced sand and gravel through river dredging and external procurement for commercial sale since 2023. It holds concession rights for comprehensive utilization of dredged materials from designated sections of the Fujiang River basin in Tongnan District. Sales from dredging operations require advance payment before delivery, while other sales are settled on a cash-on-delivery basis. The concentration risk from downstream customers is relatively high, with the top 5 customers accounting for around 58.4% of the total sales in 2025.

Solid track record of receiving local government support

As an important infrastructure construction and state-owned assets operation entity in Tongnan District, CTCE has a good track record of receiving support from Tongnan District Government and its parent company, including equity and asset injections, operating subsidies, and project payments. In 2024, 6 companies were transferred into the Company, together with cash injections and asset transfers, increasing capital reserves by RMB1.2 billion. In 2025, 3 subsidiaries of the Company were transferred out, while the Company received capital injections and transfers of land and buildings, resulting in a net increase in capital reserves of RMB259.5 million.

Meanwhile, the Company received government subsidies totaling RMB43.6 million from 2023 to 2025. In addition, from 2023 to the first quarter of 2026, the Company received a total of RMB85.5 million from the government in respect of project construction payments.

Given CTCE’s important strategic role and its contribution to the regional economic development, we expect the Company will continue to receive support from Tongnan District Government and the parent company over the next 12 to 18 months.

Increasing debt burden driven by capital expenditures on construction projects

Due to the ongoing financing for its project construction and expansion of business operations in recent years, CTCE demonstrates a rapid debt growth with a relatively large scale of outstanding short-term debts. From 2023 to 2026Q1, the Company’s total debt increased to RMB11.9 billion from RMB4.0 billion while its total capitalization ratio (total debt/total capital) increased to 66.7% from 46.0% over the same period. This growth was mainly attributable to the consolidation of several subsidiaries in 2024 and significant capital investment in project construction these years. In addition, the Company has been facing certain liquidity pressure as its short-term debt accounted for 24,4% of total debt as of 31 March 2026, with the unrestricted cash to short-term debt ratio was around 0.1x, indicating certain short-term debt repayment pressure. Considering its ongoing investment especially in commercial activities with longer investment period, we expected the Company’s debt leverage to remain at a relatively high level over the next 12-18 months.

Moreover, CTCE’s assets liquidity was moderate, which may undermine its financial flexibility. Inventories, investment properties, and intangible asset together accounted for around 78.5% of the Company’s total asset as of 31 March 2026. The intangible assets mainly consist of land use rights and franchise rights, and inventories are mainly cost of infrastructure construction and self-operating construction projects, while investment properties were mainly self-built and purchased properties, all of which are considered low liquidity. In addition, the Company’s intangible assets mainly consist of land use rights and franchise rights with a total book value of

RMB5.5 billion with limited asset returns. Additionally, as of 31 December 2025, restricted assets reached RMB6.3 billion, accounting for around 37.1% of total assets.

Diversified access to funding

CTCE has diversified funding sources, including bank loans, offshore bond issuances, and non-standard financing. The Company has long-term relationships with various major domestic banks, including policy bank and joint-stock commercial bank. As of 31 March 2026, the Company had bank credit lines totaling RMB13.5 billion, of which RMB2.6 billion were available. The Company has a track record of fund-raising activities in onshore and offshore debt capital markets, including the issuance of Including corporate bond, offshore RMB bond and USD bond. As of June 2026, the Company had one outstanding onshore bond and 3 outstanding offshore bonds totaling RMB800.0 million and USD139.0 million, respectively. The latest corporate bond offering had a coupon rate of 2.93%, while the corresponding USD bond bore a rate of 4.9%. In addition, the Company maintained low reliance on non-standard financing, which accounted for less than 10% of its total debt.

High exposure to contingent liability risks

The Company bears relatively high contingent risk resulting from large external guarantees. As of 31 March 2026, the Company's outstanding external guarantees amounted to RMB2.5 billion, accounting for 41.9% of its net assets. The Company's external guarantees are mainly provided to local state-owned enterprises within the region, with a portion extended to rural economic cooperatives to support regional agricultural development. However, the Company also provided external guarantees to some private-owned enterprises, accounting for around 3.2% of the total guarantees. All guaranteed real estate enterprises have provided sufficient collateral.

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. CTCE 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.

CTCE is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Tongnan 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 CTCE 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.

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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