

Credit Opinion

10 December 2024

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

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Eddie Li +852-2860 7130

Assistant Credit Analyst

eddie_li@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Fu Gang Construction Group Co. Limited

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Fu Gang Construction Group Co. Limited, with a stable outlook.

Summary

The BBB_g long-term credit rating of Fu Gang Construction Group Co. Limited ("Fu Gang Construction" or the "Company") reflects the Rugao City Government's very strong capacity to provide support and its high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Rugao City's status as one of the CCID Top 100 Counties in China and its relatively good economic position among all the counties/districts in Nantong City for years. However, its fiscal self-sufficiency is moderate and per capita gross regional product ("GRP") ranks behind other counties/districts in Nantong City.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in infrastructure construction and urban utilities in Rugao City, especially in Rugao Port Area; (2) track record of receiving government support; and (3) access to diversified funding.

However, the rating is constrained by the Company's (1) increasing debt burden and moderate asset liquidity; and (2) medium level of contingent risk.

The stable outlook on Fu Gang Construction's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Rugao City.

Rating Drivers

- Important role in infrastructure construction and urban utilities in Rugao City, especially in Rugao Port Area
- Track record of receiving government support
- Access to diversified funding
- Increasing debt burden and moderate asset liquidity
- Medium level of contingent risk

Rating Sensitivities

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 increased policy importance, improved debt management or reduction in exposure to external guarantees.

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 reduced regional significance, increased exposure to commercial activities or weakened access to funding.

Key Indicators

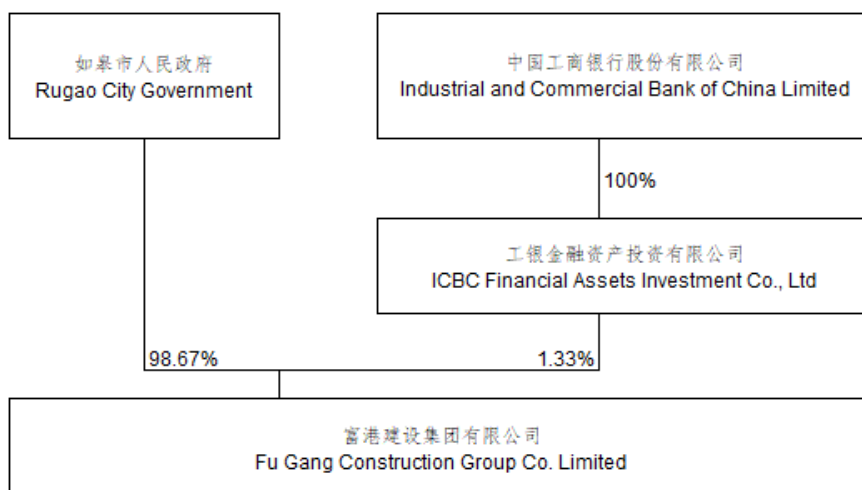
	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	17.6	19.9	22.8	24.0
Total Equity (RMB billion)	7.8	8.7	8.9	9.0
Total Revenue (RMB billion)	1.6	2.0	1.9	1.0
Total Debt/Total Capital (%)	52.0	57.0	59.4	60.9

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

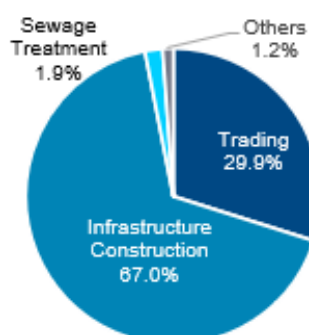
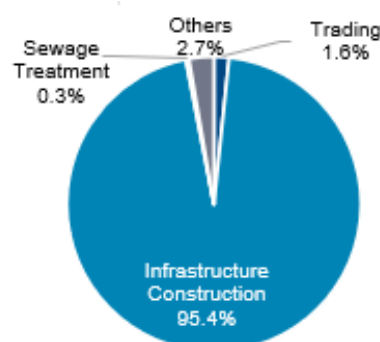
Source: Company data, CCXAP research

Corporate Profile

Founded in 2010, Fu Gang Construction is one of the important local infrastructure investment and financing companies ("LIIFCs") in Rugao City, and primarily undertakes the role of infrastructure construction and sewage treatment in Rugao Port Area (Changjiang Town), a sub-center of Rugao City. Fu Gang Construction's business scope mainly includes infrastructure construction, sewage treatment, land transfer, and trading businesses. As of 30 September 2024, the Company was controlled by Rugao City Government, which directly held 98.67% of the Company's shares; the remaining shares were held by ICBC Financial Assets Investment Co., Ltd.

Exhibit 1. Shareholding chart as of 30 September 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023**Exhibit 3. Gross profit structure in 2023**

Note: The Company has no longer carried the trading business as the main business since the fourth quarter of 2023 thus the scale of trading income reduced as of 30 September 2024.

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe that the Rugao City Government has a very strong capacity to provide support to the Company, given its status as one of the CCID Top 100 Counties in China. Rugao City's economic and fiscal strength has improved over years of development. However, its fiscal self-sufficiency is moderate and per capita gross regional product ("GRP") ranks behind other counties/districts in Nantong City.

Nantong City is a prefecture-level city in Jiangsu Province, located in the southern part of Jiangsu Province. It is an economic center and a modern port city on the north bank of the Yangtze River Delta. On the back of its port resources and location advantages, Nantong City has developed six core industrial sectors, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. In 2023, Nantong City recorded a GRP of RMB1.2 trillion, ranking 4th in Jiangsu Province, with a year-on-year ("YoY") increase of 5.8%. In the first nine months of 2024, Nantong City realized a GRP of RMB941.4 billion, up 6.3% YoY. With the continuous development of the regional economy, Nantong City reported general budgetary revenue of RMB68.0 billion in 2023, a YoY increase of 11.0% from the low level in 2022. Tax revenue is the main contributor to general budgetary revenue, averaging accounting

for around 76% over the past three years. However, the recent turndown in the real estate market affects its fiscal stability as government funds accounted for over 50% of the fiscal revenue in the past, which mainly came from the sales of land. The high linkage between its fiscal revenue and the property market would increase fiscal pressure on the government when the real estate market underperforms. As of the end of 2023, the direct debt outstanding of Nantong Municipal Government amounted to RMB213.0 billion, increasing by 7.6% and accounting for 18.1% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Nantong City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,102.7	1,138.0	1,180.0
GRP Growth (%)	8.9	2.1	5.8
General Budgetary Revenue (RMB billion)	71.0	61.3	68.0
General Budgetary Expenditure (RMB billion)	112.2	114.7	118.1
Local Government Debt (RMB billion)	186.3	197.9	213.0

Source: Nantong Municipal Government, CCXAP research

Rugao City is a county-level city under the jurisdiction of Nantong City, located in the northern part of the Yangtze River Delta. Rugao City ranked 22nd among the Top 100 counties in China released by CCID Consulting County Economic Research Center in 2024. It has developed a few core industries, including intelligent equipment manufacturing, high-end materials and new-generation information technology. In 2023, the GRP of Rugao City increased by 5.9% YoY to RMB153.4 billion, remaining ranked 4th among all districts and counties in Nantong City. In the first nine months of 2024, Rugao City achieved a GRP of RMB119.5 billion with a 6.3% YoY growth rate. In 2023, Rugao City reported that the general budgetary revenue increased to RMB7.7 billion from RMB7.4 billion in 2022. Taxes represented a large proportion of its revenue, averaging accounting for around 78% over the past three years. However, Rugao City's fiscal balance ratio remained moderate, recorded at an average ratio of 54.2% during the past three years. As of 31 December 2023, Rugao City Government's outstanding debt amounted to RMB29.4 billion, accounting for about 19.2% of GRP.

Exhibit 5. Key economic and fiscal indicators of Rugao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	143.2	147.9	153.4
GRP Growth (%)	8.5	2.3	5.9
General Budgetary Revenue (RMB billion)	7.8	7.4	7.7
General Budgetary Expenditure (RMB billion)	13.9	13.6	14.6
Local Government Debt (RMB billion)	27.9	28.5	29.4

Source: Rugao City Government, CCXAP research

Rugao City has several key development function zones, including Rugao Economic and Technological Development Zone, Rugao High-Tech Industrial Development Zone, and Rugao Port Area (Changjiang Town). The Changjiang Town and Rugao Port Area are managed as a single entity. As a key town in Jiangsu Province, Rugao Port Area (Changjiang Town) is located in the southern end of Rugao City, on the north bank of the Yangtze River, with a planning area of 200 square kilometers and 32 villages under its jurisdiction. The town boasts 48 kilometers of Yangtze River coastline and two national-level Yangtze River main navigation channels. Following years of development, a number of specialized industrial parks have been constructed in the Rugao Port Area, including the Ship Offshore and Heavy Equipment Park, the Green New Material Park, the

Communication Appliance and Electronics Park, the Modern Logistics Park, the Eco-tourism Resort and the Modern Agricultural Park.

Government's Willingness to Provide Support

Clear and important position in Rugao City, especially in Rugao Port Area

Fu Gang Construction is given a clear position and different business area by Rugao City Government compared with other LIIFCs in Rugao City. It is positioned as an integrated service provider of urban infrastructure and utilities in Rugao Port Area. There are 2 major LIIFCs in the Rugao Port Area, namely Fu Gang Construction and Rugao Yanjiang Development and Investment Co., Ltd. ("YJDI"). As a wholly-owned subsidiary of Rugao City Transportation Industry Group Co., Ltd., YJDI is mainly responsible for land consolidation, resettlement housing and the construction and maintenance of the old urban area within the Rugao Port Area. Given its role in Rugao Port Area and its close relationship with the local government, we believe that Fu Gang Construction will continue to receive support from the local government.

Undertaking infrastructure construction and sewage treatment in Rugao Port Area

Fu Gang Construction bears the responsibility for the infrastructure construction in Rugao Port Area, as well as the construction of related supporting facilities mainly through agency construction model. Under the agency construction mode, the Company signs construction agreements with a local state-owned enterprise ("SOE") and carrying out the construction work accordingly. Upon completion of the project construction, the commissioner would carry out the acceptance and settlement procedures, and the Company recognizes a markup on total cost as revenue after examinations of projects. The Company has successfully delivered a series of local infrastructure construction projects including hospitals, schools, sewage treatment plants and roads over the past few years, with a total investment of around RMB7.4 billion. As of 30 June 2024, the Company had 3 key infrastructure projects under construction and 2 key projects under planning, with an expected total investment of around RMB7.3 billion and an outstanding investment of RMB5.9 billion, respectively. These projects are mainly related to industrial park development and ecological renovation.

In addition, Fu Gang Construction operates sewage treatment business within the Rugao Port Area with the grant of concession. The business mainly involves collection and treatment of the industrial and residential sewage in the Rugao Port Area. The Company operates 2 wastewater treatment plants and a combined pipeline network length of 33.0 kilometers, with a design capacity of 40,000 tons per day. For industrial sewage, the Company collects sewage treatment fees directly from the enterprises under the government guideline price. As of the end of September 2024, the Company had entered into sewage treatment entrustment agreements with 67 enterprises. The Company's sewage treatment business generates stable revenues, but is dependent on government subsidies due to its livelihoods and public nature.

Fu Gang Construction has a large scale of commercial and residential land available for sale. The Company acquires use rights of land through the auction process and then sells them to companies attracted to Rugao Port Area according to the development plan of Rugao Port Area or the Company. However, there has been no land transfer record or income since 2023.

We believe the Company's pipelines of projects and regional franchise for sewage treatment will ensure Fu Gang Construction's important presence in the Rugao Port Area.

Low exposure to commercial activities

Fu Gang Construction is also engaged in commercial activities such as trading business. Based on our

assessment, its risk exposure to commercial activities is relatively small. In addition, the Company has no longer carried the trading business as the main business since the fourth quarter of 2023.

Track record of receiving government support

Fu Gang Construction has received ongoing support from the Rugao City Government, including capital injections, project payments and financial subsidies. For example, from 2021 to 2023, the Company received government subsidies of RMB331.7 million. Meanwhile, as of 30 September 2024, the Company has received a total of RMB5.1 billion in infrastructure project repayments from the local government. In December 2021, the Company received a capital injection of RMB780 million in cash from the Rugao City Government. We expect Fu Gang Construction to receive ongoing government support given its position as the main entity for infrastructure construction in Rugao Port Area.

Increasing debt burden and moderate asset liquidity

Fu Gang Construction has an increasing debt burden owing to its debt-driven business expansion over the past few years. Affected by the continuous investment in infrastructure construction projects, the Company's total debt has maintained an increasing trend. From 2021 to 30 September 2024, its total debt increased to RMB14.1 billion from RMB8.4 billion; and the total capitalization ratio, measured by total debt to total capital, increased to 60.9% from 52.0%. The Company has a relatively high short-term debt burden, with the short-term debt accounting for around 40% of the total debts and the cash to short-term debt ratio at 0.3x, as of 30 September 2024. The Company planned to invest around RMB5.9 billion for the construction of infrastructure in the future. Consider the Company will keep reliance on external financing, we expect that its debt level will continue to increase over the next 12 to 18 months.

In addition, Fu Gang Construction's asset liquidity is moderate. There was a significant allocation to receivables and inventories with limited profitability, which together accounted for 88.0% of total assets as of end-2023. The Company's inventories mainly include costs of construction projects and land, of which 89 land parcels with a total area of 2.2 million square meters were mainly for commercial and residential use. On top of that, Fu Gang Construction's accounts receivables are mainly from project settlements with local SOEs, which accounted for 10.2% of its total assets as of end-2023. Such payments may be subject to the fiscal regime and land market conditions. The Company's other receivables are primarily comprised of amounts due from local SOEs, which are substantial in scale and have an uncertain payback period, forming a certain occupation of the Company's funds. As of 30 September 2024, the Company has pledged a number of assets for loans, such as cash and land in inventory, with a total amount of RMB4.3 billion, accounting for around 17.8% of its total assets, which weakened its asset liquidity. However, with the economic development of Rugao Port Area, the Company's land assets may appreciate in value and can be used for industrial investment and development purposes.

Access to diversified funding

Fu Gang Construction's pressure on large expenditures and short-term debt burden could be partially released by its refinancing ability. The Company's financing channels mainly include bank loans and direct financing, along with a certain scale of non-standard financing products. It has maintained a good relationship with policy banks, joint-stock commercial banks and large state-owned commercial banks, such as China Agricultural Development Bank, Bank of Nanjing Co., Ltd. and Industrial and Commercial Bank of China. As of 30 September 2024, the Company has obtained total bank credit facilities of RMB15.5 billion, with an unutilized amount of RMB6.6 billion. The Company also has a track record for fund-raising activities in the capital market. For example, as of 30 September 2024, the Company's financing balance from debt issuance equivalent to RMB2.9

billion, including 3 onshore bonds with coupon rates from 2.9% to 4.0% and 3 tranches of USD offshore bonds with a coupon rate of 2.1%. Fu Gang Construction's exposure to non-standard financing is manageable, mainly including financial leasing, accounting for around 9.1% of the total debts. Overall, we expect the Company's refinancing risk to be relatively manageable over the next 12-18 months.

Medium level of contingent risk

Fu Gang Construction's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 September 2024, the Company had outstanding external guarantees of RMB6.1 billion, accounting for 25.6% of its total assets. All the external guarantees were provided to local state-owned companies, which we believe the risks are relatively manageable.

In addition, as of the end of September 2024, the Company was involved in a material litigation matter concerning a contractual dispute between Jiangsu Hongjing Group Co., Ltd. and several local SOEs such as YJDI and Fu Gang Construction. The case is still pending in the High Court of Jiangsu Province. Beforehand, the judgement from Nantong Intermediate People's Court was that the Company was jointly and severally liable for YJDI's obligation with amount of approximately RMB233 million. The amount involved in the lawsuit accounts for less than 5% of the Company's net assets and has limited impact on the Company's operations and credit profile.

ESG Considerations

Fu Gang Construction faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

Fu Gang Construction bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Rugao Port Area. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

Fu Gang Construction's governance considerations are also material as the Company is subject to oversight by the Rugao City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

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

Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656