

## Credit Opinion

12 December 2024

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

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## Fuzhou Digital Economy Investment Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Fuzhou Digital Economy Investment Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Fuzhou Digital Economy Investment Group Co., Ltd. ("FDEI" or the "Company") reflects (1) Fuzhou Municipal Government has a strong capacity to provide support, and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Fuzhou Municipal Government's capacity to support reflects its geographic advantage and ongoing economic and fiscal growth.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in infrastructure construction and industrial development of Fuzhou City; (2) good track record of receiving ongoing government payments; and (3) good access to funding.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees.

The stable outlook on FDEI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in the development of Fuzhou City.

## Rating Drivers

- Important role in infrastructure construction and industrial development of Fuzhou City
- Medium exposure to commercial activities
- Good track record of receiving ongoing government payments
- Increasing debt burden and moderate asset liquidity
- Good access to funding
- Medium contingent liability risk from external guarantees

## Rating Sensitivities

### What could upgrade the rating?

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

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in debt burden.

## Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	10.5	14.7	15.4
Total Equity (RMB billion)	3.7	4.0	4.4
Total Revenue (RMB billion)	1.7	2.1	2.1
Total Debt/Total Capital (%)	57.1	64.1	66.9

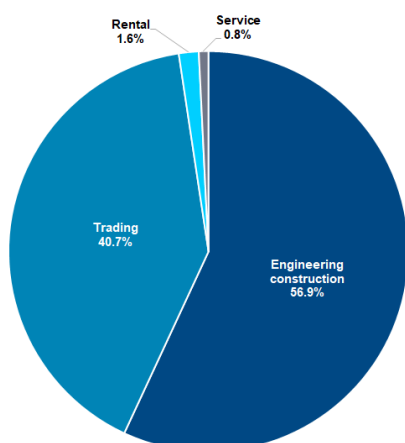
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Established in 2015, FDEI is an important local infrastructure investment and financing company ("LIIFC") in Fuzhou City. The Company is primarily focused on infrastructure construction projects of major industrial parks in Fuzhou City. The Company also holds franchise rights for gas and waste-to-energy generation. It is also involved in other commercial activities such as engineering construction, trading, and industrial investment. FDEI is ultimately controlled and wholly owned by the Fuzhou State-owned Assets Supervision and Administration Commission ("Fuzhou SASAC").

## Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Support

We believe Fuzhou Municipal Government has strong capacity to provide support, given Fuzhou City's geographic advantage and ongoing economic and fiscal growth.

Located in the east of Jiangxi Province, Fuzhou City is a prefecture-level city under the jurisdiction of Jiangxi Province. The economic strength of Jiangxi Province lies at middle level among all provinces in China. In 2023, Jiangxi Province's Gross Regional Product ("GRP") reached RMB3.2 trillion, ranking 15<sup>th</sup> among all provinces in China, with a year-on-year ("YoY") increase of 4.1%. Its general budgetary revenue increased from RMB294.8 billion in 2022 to RMB306.0 billion in 2023, as a result of a significant increase in tax revenue to RMB202.2 billion with a relatively high YoY growth rate of 13.0%. In the first three quarters of 2024, Jiangxi Province achieved a GRP of RMB2.4 trillion, with a growth of 4.7%.

As a famous city of traditional Chinese opera, Fuzhou City is a key city for economic cluster development in the middle reaches of the Yangtze River, with good geographic advantages. Fuzhou City is economically dominated by biopharmaceuticals, automobiles and components, new energy materials, and modern information industries. Benefited from good location, Fuzhou City's GRP increased by 6.3%YoY to RMB203.5 billion in 2023, ranking 6<sup>th</sup> in terms of GRP among all the prefecture-level cities in Jiangxi Province. Benefited from economic recovery, Fuzhou City's general budgetary revenue rose from RMB13.7 billion in 2022 to RMB14.2 billion in 2023. For the past three years, its average tax income accounted for 66.8% of general budgetary revenue. However, due to the downturn in the real estate market, the government fund revenue of Fuzhou City continued to decline, dropping from RMB25.9 billion in 2021 to RMB15.6 billion in 2023. Additionally, it has weak fiscal self-sufficiency, with fiscal balance ratio of 26.3% in 2023. Fuzhou City's government debt increased from RMB74.4 billion in 2022 to RMB91.1 billion in 2023, accounting for 44.7% of its GRP. In the first half of 2024, Fuzhou City has attained a GRP of RMB101.3 billion, demonstrating a growth rate of 6.4%.

**Exhibit 2. Key economic and fiscal indicators of Fuzhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	179.5	194.6	203.5
GRP Growth (%)	8.0	5.0	6.3
General Budgetary Revenue (RMB billion)	13.2	13.7	14.2
General Budgetary Expenditure (RMB billion)	50.0	53.0	53.9
Local Government Debt (RMB billion)	59.7	74.4	91.1

Source: Statistic Bureau of Fuzhou City, CCXAP research

**Government Willingness to Support****Important role in infrastructure construction and industrial development of Fuzhou City**

As the core operating entity carrying out infrastructure construction in Fuzhou City, the Company has undertaken a large number of infrastructure development projects, supporting the construction of key social and industrial projects in Fuzhou City and the industrial transformation and upgrade of Fuzhou City. Considering its strategic significance to the development of Fuzhou City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Entrusted by the Fuzhou City Government, the Company undertakes infrastructure construction projects under agent construction model. The Company enters into a repurchase agreement with the local government and is responsible for project management. The Company charges construction management fees, ranging from 10% to 15%, according to the total project investment. These projects include industrial park construction, government office and hospital construction. As of 31 December 2023, the Company had 4 construction projects under construction with a total estimated investment of approximately RMB854.0 million and uninvested amount of around RMB37 million. The Company has no agent construction projects under planning.

FDEI also enters into a public-private partnership (“PPP”) Project Agreement with the related departments of the Fuzhou Municipal Government. As the private sector of the PPP projects, the Company generally establishes special purpose subsidiaries with government entities, which will be responsible for the investment, financing, construction and operation of the projects. As of 31 December 2023, the Company had totally invested RMB7.5 billion into 8 ongoing PPP projects, with RMB2.4 billion remaining uninvested, indicating large capital expenditure pressure. However, the total project payment received was RMB63 million, indicating slow progress in payment collection. The Company's PPP projects have not yet entered into operational phase, with a significant portion of invested funds tied up in intangible assets and long-term receivables. Its fund balance heavily relies on future operating revenue and government subsidies, posing a certain level of uncertainty on investment recovery.

**Medium exposure to commercial activities**

FDEI's commercial businesses mainly include leasing and trading. Furthermore, as an important industrial investment platform for promoting the adjustment of economic structure and industrial upgrading of Fuzhou City, the Company conducts industrial investments in accordance with the government's planning for industrial development. We consider the Company's exposure to commercial businesses to be medium, accounting for around 30% of its total assets.

The Company engages in property leasing business. Its rental property mainly includes residential properties, offices, shops, warehouses, factories and parking spaces. As of 31 December 2023, the Company owned 308 investment properties with a total floor area of 96,179.5 square meters and book value of RMB4.3 billion and 4

land use rights with a total land area of 57.2 mu and book value of RMB137.5 million. It has received rental income of RMB33.1 million in 2023.

The Company also participates in trading business, mainly involving trading of ethylene glycol, cathode copper, ethylene glycol, masks, and hardware. The trading business revenue accounted for 39.9% of its total revenue in 2023, but recording a low gross profit margin of around 1.5%. Besides, there is a high concentration risk regarding upstream suppliers and downstream customers as the top five suppliers and customers accounted for 100% of the total procurement and the total sales in 2023.

According to the government's industrial planning, the Company has conducted industrial investments and equity investments in small and medium-sized enterprises in Fuzhou City. In terms of industrial investment, the Company has collaborated with professional enterprises in related industries to invest and operate the franchise rights transferred from Fuzhou Municipal Government, such as gas supply and waste power generation, and receives investment returns according to investment proportion. From 2021 to 2023, it had achieved investment returns of RMB37.0 million. Additionally, the Company also has equity investments in Jiangxi DBK Co., Ltd. and a listed company, namely Jiangxi Zhite New Materials Co., Ltd. (Stock code: 300986.SZ).

### **Good track record of receiving ongoing government payments**

As an important urban development and operation entity in Fuzhou City, the Company has a proven track record of receiving support from the local government through various channels including asset injection, project payments and subsidies. In 2023, the Fuzhou Municipal Government transferred real estate assets to the Company, increasing its capital reserve by RMB352 million. It also has received support from government in subsidies of totally RMB108 million from 2021 to 2023. Additionally, the local government also has provided payments for the infrastructure projects. The Company had received total project payments of RMB452 million as of end-2023. Furthermore, the Company received a total of RMB172.9 million in government special funds in 2023. Given its important position in the development of Fuzhou City, we believe that the Fuzhou Municipal Government will continue to provide support to the Company.

### **Increasing debt burden and moderate asset liquidity**

With the increasing financing demand for the construction project, FDEI has a fast debt growth over the past three years. The Company's total debt increased from RMB4.9 billion at end-2021 to RMB8.8 billion at end-2023, with total capitalization ratio of 66.9%. In addition, the Company has a relatively large short-term debt burden. As of 31 December 2023, its short-term debt accounted for about 30.3% of total debt and its cash to short-term debt ratio was 0.6x, indicating insufficient cash flow to service its short-term debts.

FDEI's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of long-term receivables, investment properties, and intangible assets, all with low liquidity. The long-term receivables are mainly unreceived PPP project payments from the local government, the investment properties are properties for leasing, while the intangible assets are operational rights of PPP projects, totally accounting for about 59% of total asset at end-2023. Nevertheless, the properties assets can provide stable income and cash flow to the Company.

### **Good access to funding**

FDEI has diversified sources of funding including bank loans, onshore and offshore bond issuances and non-standard financing. As of 31 December 2023, around 73.7% of the Company's debt financing was provided by bank loans, with total credit facilities of RMB9.4 billion and unutilized amount of about RMB3.0 billion, indicating

sufficient liquidity buffer. The Company also has access to debt capital markets. As of 30 November 2024, the Company had 1 onshore and 2 offshore outstanding bonds, with total outstanding amount of RMB600 million and USD194 million, respectively. It has low exposure to non-standard financing products, accounting for around 2.8% of the total debt. We consider the Company's diversified funding channel can largely fulfill its future capital expenditure.

### **Medium contingent liability risk from external guarantees**

The Company is exposed to a low contingent liabilities risk. As of 31 December 2023, the Company recorded an external guarantee amount of RMB853 million, accounting for 19.6% of its total equity. Most guaranteed entities are the state-owned enterprises ("SOE") in Fuzhou City. The credit risk of the Company and other local SOEs might be heightened if one guaranteed entity suffers from credit issues.

## **ESG Considerations**

FDEI assumes environmental risks through its urban infrastructure projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, FDEI has played a crucial role in the social welfare of Fuzhou City by involving the construction of public projects in Fuzhou City.

In terms of corporate governance, FDEI's governance considerations are also material as the Company is subject to local government oversight and 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 \(July 2022\)](#).

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