

Chuzhou Nanqiao Urban Investment Holding Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 November 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chuzhou Nanqiao Urban Investment Holding Group Co., Ltd. (“CNUI” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Nanqiao District, Chuzhou City (“the Nanqiao government”) would provide very strong support to CNUI if needed, in light of its full ownership of CNUI, CNUI’s strategic importance as the sole construction and development platform in Chuzhou’s Nanqiao District (“Nanqiao”), and the linkage between the Nanqiao government and CNUI, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Nanqiao government may face significant negative impact on its reputation and financing activities if CNUI encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that CNUI’s strategic importance would remain intact while the Nanqiao government will continue to ensure CNUI’s stable operation.

Rating Rationale

Nanqiao Government’s Ownership and Supervision: The Nanqiao government holds 100% ownership of CNUI through the Nanqiao State-owned Assets Supervision and Administration Commission (“the Nanqiao SASAC”). The Nanqiao government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Nanqiao government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Nanqiao and Strategic Alignment: After Nanqiao District’s state-owned enterprises integration in 2022, CNUI became the sole construction and development platform in Nanqiao District. The company undertakes most project constructions within the region. Its business operation and strategic planning have been aligned with the government’s development plans, playing a significant role in promoting the economic and social development of the region.

Ongoing Government Support: CNUI receive ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. We believe that the government support will remain intact given the company’s strategic importance in Nanqiao District. Between 2020 and the first half of 2023, the local government injected cash capital of RMB869 million into CNUI. In addition, the company received RMB2.7 billion worth of assets from the local government. The local government also provided financial subsidies amounting to RMB550 million over the same period to CNUI to support its activities in relation to public interest.

Economy and Fiscal Condition of Nanqiao: Nanqiao is a district of Chuzhou City, Anhui Province, and is located at the junction of Jiangsu and Anhui provinces. Nanqiao district is

Key Figures of Nanqiao and CNUI

(RMB billion)

	2021	2022
Nanqiao		
GDP	23.2	24.4
GDP growth rate (%)	2.1	5.7
Budgetary revenue	1.9	2.0
Government fund	-	0.01
Transfer payment	1.9	2.2
Budgetary expenditure	2.9	3.3
CNUI	2022	2023.6
Asset	20.1	23.2
Equity	12.4	13.3
Revenue	1.0	0.6

Source: Public information, CNUI and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

the bridgehead of Anhui Province's "eastward development" strategy and the forefront of integration into the Nanjing metropolitan area. Nanqiao district's economy remained relatively stable in recent years, and its GDP reached RMB24.4 billion in 2022, representing a year-over-year growth rate of 5.7%. Its economic development focused on equipment manufacturing, smart home appliances, new building materials and food industries in recent years.

The aggregate fiscal revenue of the Nanqiao government was mainly derived from the budgetary revenue and transfer payment. The Nanqiao government's budgetary revenue grew steadily between 2020 and 2022. However, the fiscal self-sufficiency rate of the Nanqiao government was low, with fiscal budget deficit of 65.6% in 2022. Yet the Nanqiao government received strong external from higher governments, with transfer payment income increasing to RMB2.2 billion in 2022 from RMB1.7 billion in 2020. The Nanqiao government recorded few government fund incomes in the past three years given it needs to turn in all land concession revenue to the higher government.

The outstanding debt of the Nanqiao government continued to grow as it borrowed heavily in special debts to support public projects within the region. At end-2022, the Nanqiao District government's outstanding debt amounted to RMB5.2 billion, up from RMB3.4 billion at end-2020. The government debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 122.5% from 99.1% over the same period.

CNUI's Financial and Liquidity Position: CNUI's total asset showed a continuous growth in the past three years, due to the company's active participation in Nanqiao District's projects development. The company relied on both capital injections and borrowings to fund its asset expansion. As a result, CNUI's financial leverage, as measured by total debt/capitalization, only increased moderately to 40.2% at end-June 2023, a manageable level, from 30.6% at end-2020. Nevertheless, we expect CNUI's financial leverage to increase in the coming years given that it has many construction projects, as well as photovoltaic and semiconductor industrial parks projects under construction or scheduled to be constructed.

CNUI's short-term debts repayment pressure was moderate. At end-June 2023, CNUI had unrestricted cash balance of RMB1.4 billion, compared with its debt due within one year of RMB1.9 billion. Moreover, CNUI has accessed to various financing channels, including bank loans, and bond issuance, to support its debt repayments and business operations. At end-June 2023, the company had unused credit facilities amounting to RMB3.1 billion.

Rating Sensitivities

We would consider downgrading CNUI's rating if (1) there is perceived weakening in support from the Nanqiao government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Nanqiao government's ownership of CNUI, or (3) there is a downgrade in our internal credit assessment on the Nanqiao government.

We would consider upgrading CNUI's rating if there is an upgrade in our internal credit assessment on the Nanqiao government.

Operating Environment

Economic Condition of Nanqiao

Nanqiao is a district of Chuzhou City, Anhui Province, and is located at the junction of Jiangsu and Anhui provinces. Nanqiao district is the bridgehead of Anhui Province's

“eastward development” strategy and the forefront of integration into the Nanjing metropolitan area. Nanqiao district has jurisdiction over three streets and eight towns, with a total land area of 1,177.7 square kilometers. At end-2022, Nanqiao District had a resident population of c. 0.36 million, with an urbanization rate of 71.3%.

Nanqiao district’s economy remained relatively stable in recent years, and its GDP reached RMB24.4 billion in 2022, representing a year-over-year growth rate of 5.7%. Nanqiao district’s economic growth was mainly fueled by the tertiary and secondary, which accounted for 54.6% and 36.9% of total GDP in 2022, respectively. Its economic development focused on equipment manufacturing, smart home appliances, new building materials and food industry in recent years. The fixed asset investment growth rate of Nanqiao district remained high in the past three years, recording at 13.3%, 19.1% and 17.4% in 2020, 2021 and 2022, respectively.

Nanqiao’s GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	22.8	23.2	24.4
-Primary industry (%)	8.2	8.6	8.5
-Secondary industry (%)	41.9	35.0	36.9
-Tertiary industry (%)	49.9	56.4	54.6
GDP growth rate (%)	0.4	2.1	5.7
Fixed asset investment growth rate (%)	13.3	19.1	17.4
Population (million)	0.35	0.35	0.36

Source: Public information and Lianhe Global’s calculations

Fiscal Condition of Nanqiao

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Nanqiao’s Fiscal Condition

(RMB billion)	2020	2021	2022
Budgetary revenue	1.7	1.9	2.0
Budgetary revenue growth rate (%)	9.1	10.0	5.3
Tax revenue	1.0	1.1	1.0
Tax revenue (% of budgetary revenue)	59.0	55.9	50.9
Government fund income	0.0	0.0	0.01
Transfer payment	1.7	1.9	2.2
Aggregate revenue	3.4	3.8	4.2
Budgetary expenditure	2.9	2.9	3.3
Budget balance ¹ (%)	-70.3	-51.1	-65.6

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CNUI was established in April 2019 with an initial registered capital of RMB5.0 million, funded by Chuzhou Nanqiao State-owned Assets Operation Co., Ltd. ("CNSAO"), the most important local investment and development companies ("LIDC") in Nanqiao District.

In May 2022, under the local government's policy of promoting state-owned enterprise reform, CNUI's the controlling shareholder of the company was changed to Nanqiao State-owned Assets Supervision and Administration Commission ("Nanqiao SASAC"). The local government also transferred 100% equity of CNSAO and the equity of other LIDCs to CNUI, making it the sole platform within the region. Currently, CNUI and CNSAO shares a same management team.

At end-June 2023, CNUI's registered and paid-in capital were enlarged to RMB2.0 billion and RMB871 million, respectively, after an array of capital injections.

Strategic Importance and Government Linkage

Strategic Importance of CNUI to Nanqiao

After Nanqiao District's LIDC integration in 2022, CNUI became the sole construction and development platform in Nanqiao District. The company undertakes most project constructions within the region. Its business operation and strategic planning have been aligned with the government's development plans, playing a significant role in promoting the economic and social development of the region.

Strong Linkage with the Local Government

CNUI's linkage with the local government is strong as the Nanqiao government holds 100% ownership of CNUI through the Nanqiao SASAC. The Nanqiao government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Nanqiao government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

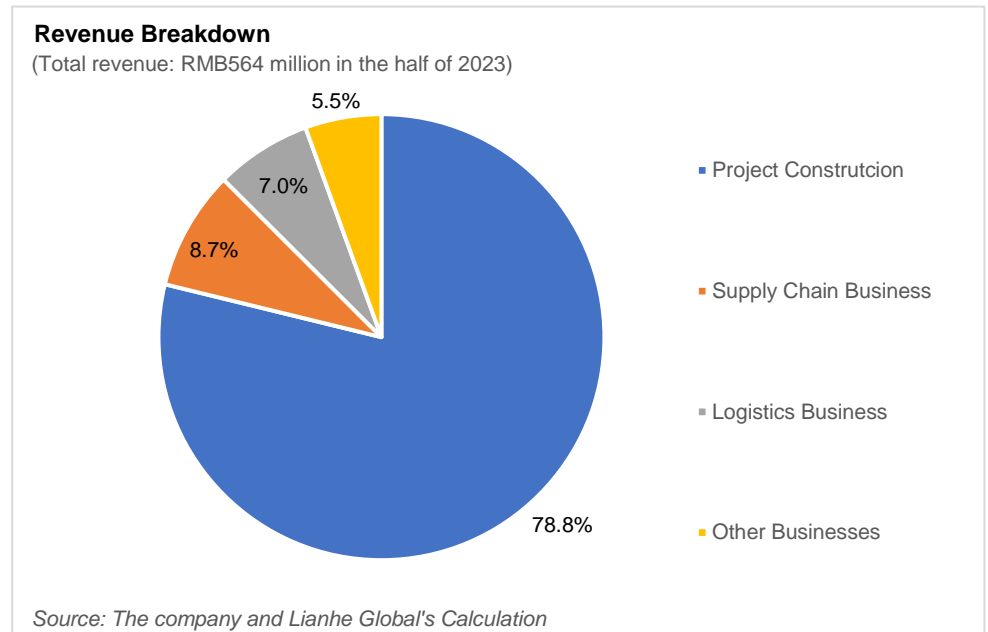
Ongoing Government Support

CNUI receive ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. We believe that the government support will remain intact given the company's strategic importance in Nanqiao District. Between 2020 and the first half of 2023, the local government injected cash capital of RMB869 million into CNUI, enlarging its paid-in capital to RMB871 million from RMB2 million. In addition, the company received RMB2.7 billion worth of assets, such as a reservoir, kindergartens and equity of local state-owned enterprises, from the local government. The local government provided financial subsidies amounting to RMB550 million over the same period to CNUI to support its activities in relation to public interest.

Business Profile

The Sole Platform Responsible for Infrastructure Construction in Nanqiao District

CNUI is the sole construction and development platform in Nanqiao District undertaking most project constructions in Nanqiao. The company also diversified into supply chain, logistic and other businesses. The company realized total revenue of RMB386 million, 862 million, 1,060 million and 564 million in 2020, 2021, 2022 and the first half of 2023, respectively, showing a steady upward trend, while the overall gross profit margin of CNUI stayed between 12.7% and 15.7%.



Project Construction

CNUI undertake most construction projects in Nanqiao District. The projects in this segment are conducted under the agent construction model. According to the agent construction agreements signed, the company uses its own funds and external financings to develop entrusted projects and charges entrusting parties construction costs plus 20% management fees upon the project completion. The payment collection period is usually three to five years.

CNUI has a strong project pipeline. At end-June 2023, the company had six major projects under construction with total planned investments of RMB3.8 billion, of which RMB2.3 billion scheduled to be investment in the next two to three years. In addition to agent construction, CNUI also develops self-operated projects such as industrial parks, training center, sewage treatment plant, cemetery and cultural travel projects. The company plans to run these projects upon completion to earn rental and operational incomes. Yet these projects also required investment of RMB1.8 billion in the next two to three years. We expect CNUI's capital expenditure to be high in the coming years.

Supply Chain Business

CNUI engages in the sales of steel product by adopting a "demand-driven" model. The company determines the amount of product to be procured strictly based on the actual purchase orders placed by buyer, earning profit from the spread between buying and selling prices. Between 2022 and the first half of 2023, the buyer concentration of this segment was

higher as the company had only one buyer, Anhui Jinpeng Construction Group Co., Ltd., a privately-owned construction company. CNUI usually provides three months of credit terms to the buyer, incurring counterparty credit risk. In addition, the segment's profit margin was low (2%-3%).

Logistics Business and Others

CNUI holds 51% shares of Anhui Nanyue Intelligent Logistics Technology Co., Ltd., which operates logistics business through "Wisdom Link Cloud" network platform, matching supply and demand between large logistics companies and production enterprises in Chuzhou and surrounding areas.

Other businesses of CNUI include financing guarantee, leasing, land transfer, water supply and greening, with each segment accounted for a relatively small proportion of the company's total revenue. Other businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June 2023
Total Asset	15,252	18,304	20,106	23,245
Equity	10,046	12,183	12,436	13,338
Debt	4,427	4,885	6,877	8,954
Debt / (Debt + Equity) (%)	30.6	28.6	35.6	40.2
LT Debts	3,874	3,824	5,753	7,053
LT Debt / (LT Debt + Equity) (%)	27.8	23.9	31.6	34.6

Source: Company information and Lianhe Global's calculations

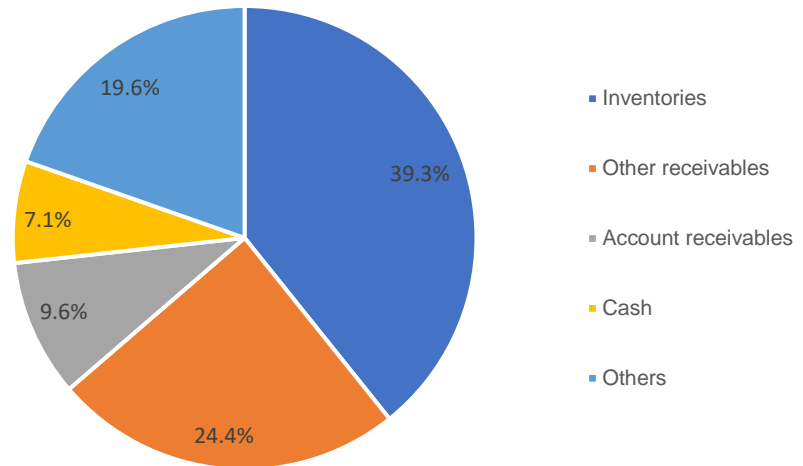
CNUI's total asset showed a continuous growth in the past three years, increasing by 52.4% to RMB23.2 billion at end-June 2023 from RMB15.3 billion at end-2022. This was due to the company's active participation in Nanqiao District's projects development. The company relied on both capital injections and borrowings to fund its asset expansion. Its total debt doubled to RMB8.9 billion at end-June 2023 from RMB4.4 billion at end-2020. Yet the company also received multiple capital injections from the local government over the same period, enhancing its equity base to RMB13.3 billion from 10.0 billion. As a result, CNUI's financial leverage, as measured by total debt/ capitalization, only increased moderately to 40.2% at end-June 2023, a manageable level, from 30.6% at end-2020. Nevertheless, we expect CNUI's financial leverage to increase in the coming years given that it has many construction projects, as well as photovoltaic, and semiconductor industrial parks projects under construction or scheduled to be constructed.

CNUI's asset liquidity was weak. At end-June 2023, CNUI's assets mainly consisted of inventories (39.3%), other receivables (24.4%) and account receivables (9.6%). Inventories primarily comprised of development cost and lands, which usually take a long time to monetize due to protracted construction and cash collection periods. Other receivables and account receivables were mainly due from with state-owned enterprises and government departments in Nanqiao, with controllable counterparty credit risk and low bad debt provision. Having said that, the company faces uncertainty in the overall process of payments collection.

In addition, CNUI had outstanding debt investment of RMB550 million and long-term equity investment of RMB113 million made to EVPS Anhui Co., Ltd., (“EVPS”) a power battery manufacturer. The investments initially aimed at inviting investment, and thus had low return requirements and long duration. The recoverability of the investments was subject to the operational performance of EVPS.

Asset Breakdown

(Total assets: RMB23.2 billion at end-June 2023)



Source: The company and Lianhe Global's calculation

Debt Servicing Capability

CNUI's short-term debts repayment pressure was moderate. At end-June 2023, CNUI had unrestricted cash balance of RMB1.4 billion, compared with its debt due within one year of RMB1.9 billion. Moreover, CNUI has accessed to various financing channels, including bank loans, and bond issuance, to support its debt repayments and business operations. At end-June 2023, the company had unused credit facilities amounting to RMB3.1 billion.

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