

Xiao County Construction Investment Group Co., Ltd.

Surveillance Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	20 May 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Xiao County Construction Investment Group Co., Ltd. (“XCCIG” or “the company”); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Xiao County (“Xiao County government”) would provide very strong support to XCCIG if needed, in light of its direct full ownership of XCCIG, XCCIG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for comprehensive urban operation, project construction, area development and state-owned asset management in Xiao County, Suzhou City (“Xiao County”), and the linkage between the Xiao County government and XCCIG, 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 Xiao County government may face significant negative impact on its reputation and financing activities if XCCIG encounters any operational and financial difficulties.

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

Rating Rationale

Xiao County Government’s Full Ownership: The Xiao County government directly holds 100% ownership of XCCIG through the Finance Bureau of Xiao County, Suzhou City (“Xiao County FB”), and is the actual controller of the company. The Xiao County government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Xiao County government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: XCCIG remains as the core LIDC in Xiao County. The company, as the main implementation body for comprehensive urban operation, state-owned asset management and project construction in Xiao County, is primarily responsible for the construction of key urban projects, sewage treatment, water supply, urban maintenance and management in Xiao County, as well as the area development within the area, with strong regional advantages. XCCIG serves as the primary platform for urban construction financing and manages urban construction funds. It plays an important role in promoting the economic and social development and of Xiao County. Its business operation and development have been aligned with the government’s development plans.

Key Figures of Xiao County and XCCIG (RMB billion)

Xiao County	2022	2023
GDP	43.2	44.4
GDP growth rate (%)	5.1	5.7
Budgetary revenue	2.1	2.2
Government fund	2.9	1.1
Transfer payment	4.6	3.3
Budgetary expenditure	8.0	7.4
XCCIG	2022	2023.9
Asset	10.6	12.3
Equity	7.2	7.2
Revenue	0.2	0.3

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

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Applicable Criteria

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

Ongoing Government Support: XCCIG received ongoing support from the local government, including asset injection and financial subsidies. Between 2022 and the first nine months of 2023, XCCIG financial subsidies of RMB60.8 million. Meanwhile, the Xiao County government continued to inject cash, equity, and other assets into XCCIG to expand its asset size. Besides, the government will provide policy supports to XCCIG to ensure its business operation. Given the franchise advantages in project construction, area development and urban operation, XCCIG has advantage to obtain major projects. We believe XCCIG is likely going to receive government support in the form of operational and financial subsidies to support its daily business operation.

Economic and Fiscal of Xiao County: Xiao County is a county of Suzhou and is located in the northwest of Suzhou. Xiao County has jurisdiction with 23 towns, 3 streets and 1 economic development zone, with a total land area of c. 1,853.6 square kilometers. At end-2022, Xiao County has a population of c. 1.0 million, with an urbanization rate of c. 40%. Xiao County maintained steady economic growth in the past few years. Its GDP reached RMB44.4 billion in 2023, representing a year-on-year growth rate of 5.7%, up from 5.1% recorded in 2022. Xiao County's GDP amount was ranked 2nd out of all counties and districts of Suzhou in 2023.

The budgetary revenue of the Xiao County government increased slightly to RMB2.2 billion in 2023 from RMB2.1 billion in 2022, with the contribution of tax revenue remaining relatively stable at 53%-54% over the same period. The financial self-sufficiency rate of Xiao County was insufficient and it recorded a budget deficit of 235.3% in 2023. Government fund income, mainly generated by land sales, slumped to RMB1.1 billion in 2023 from RMB2.9 billion in 2022, owing to the downturn in property market. The outstanding debt of the Xiao County government continued to grow and reached RMB11.7 billion at end-2023. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 178.4% at end-2023 from 117.9% at end-2022, mainly due to the large decrease in aggregate fiscal revenue.

XCCIG's Financial and Liquidity Position: XCCIG's total assets increased by 16.2% to RMB12.3 billion at end-September 2023 from RMB10.6 billion at end-2022, mainly due to the increase in other receivables. At end-September 2023, XCCIG's assets mainly consisted of inventories, other receivables, investment properties, investments in other equity instruments and cash at bank and on hand. XCCIG's current assets accounted for a relatively large proportion of total assets, reaching 63.6% at end-September 2023. Its assets were illiquid, primarily due to the large proportion of costs associated with construction projects, investment properties and receivables.

XCCIG's financial leverage, as measured by total liability/total asset, increased to 41.2% at end-September 2023 from 31.9% at end-2022. Its total debt increased to RMB4.9 billion at end-September 2023 from RMB3.2 billion at end-2022, mainly due to the increase in long-term borrowings. The short-term debt and long-term debt accounted for 18.3% and 81.7% of the total debt at end-September 2023, respectively. There was no significant change in the ownership equity structure of XCCIG at end-September 2023, compared with that at end-2022. XCCIG mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to increase in the future given its projects under construction and to be constructed in the future.

In addition, XCCIG's debt servicing pressure is moderately high. At end-September 2023, XCCIG had short-term debt of RMB894 million, compared with its cash balance of RMB287.1 million. Yet XCCIG has access to multiple financing channels, including bank loans and other non-traditional financing channels to support its debt repayment and business operation.

Rating Sensitivities

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

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

Company Profile

XCCIG was established in July 2016 with an initial registered capital of RMB2 billion. At end-2023, XCCIG's registered and paid-in capital was both RMB440.6 million. The Xiao County government holds 100% shares of XCCIG through the Xiao County FB.

XCCIG is responsible for comprehensive urban operation, state-owned asset management and project construction in Xiao County. It is in charge of the construction of key urban projects, sewage treatment, water supply, urban maintenance and management, as well as the construction and development of Xiao County's New District, with strong franchised advantages.



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