

Xiao County Construction Investment Group Co., Ltd.

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	20 May 2025

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

Summary

The Issuer Credit Rating upgrade reflects an upgrade in our internal credit assessment on the People’s Government of Xiao County (“Xiao County government”). We believe there is a high possibility that the 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, 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.

Xiao County is a county of Suzhou City, Anhui Province and is located in the northwest of Suzhou City. Xiao County’s GDP reached RMB48.8 billion in 2024, with the growth rate accelerating to 6.0% year-on-year in 2024. The budgetary revenue of Xiao County reached RMB1.9 billion in 2024.

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.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured bonds issued by XCCIG to ‘BBB’ from ‘BBB-’ at the same time. A full list of issuance rating is included in this press release.

Rating Rationale

Xiao County Government’s Full Ownership and Supervision: 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 auditors to supervise the operating performance and financial position on a periodic basis.

High Strategic Importance and Strategic Alignment: XCCIG remains 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 construction and development of Xiao County’s New District, with strong regional advantages. XCCIG

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

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.

Ongoing Government Support: XCCIG received ongoing support from the Xiao County government, including asset injection and operational subsidies. XCCIG received operational subsidies of RMB34.8 million and RMB23.6 million in 2023 and 2024, respectively. Meanwhile, the Xiao County government continued to inject cash, equity, and other assets into XCCIG to expand its asset size. 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.

XCCIG's Financial Matrix and Liquidity Position: XCCIG's total assets increased by 20.0% to RMB15.8 billion at end-2024 from RMB13.1 billion at end-2023, mainly due to the increase in other receivables and inventories. At end-2024, XCCIG's assets mainly consisted of inventories, other receivables, investment properties, and investments in other equity instruments.

XCCIG's financial leverage, as measured by debt to capitalization ratio, increased to 52.2% at end-2024 from 42.6% at end-2023. Its total debt increased significantly to RMB8.0 billion at end-2024 from RMB5.4 billion at end-2023, mainly due to the increase in long-term borrowings. The short-term debt and long-term debt accounted for 22.7% and 77.3% of the total debt at end-2024, respectively. XCCIG mainly relies on external financing to support its capital expenditures and debt repayments.

In addition, XCCIG's short-term debt servicing pressure was moderately high. At end-2024, XCCIG had a cash balance of RMB164 million (including restricted cash of RMB70 million) and an unused bank facility of RMB1.3 billion, compared with its debt due within one year of RMB1.8 billion. However, XCCIG has access to various channels of financing, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

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.

Any rating action on XCCIG's rating would result in a similar rating action on its senior unsecured bonds.

Full List of Issuance Ratings

- CNY485 million 7.80% senior unsecured bonds due 2027 upgraded to 'BBB' from 'BBB-'
- CNY250 million 7.80% senior unsecured bonds due 2026 upgraded to 'BBB' from 'BBB-'

Operating Environment

Economic Condition of Xiao County

Xiao County is a county of Suzhou and is located in the northwest of Suzhou. Xiao County had a GDP of RMB48.8 billion in 2024, with an accelerating growth rate of 6.0%, compared with 5.7% increase in 2023. Xiao County's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 37.9% and 46.4% of its GDP in 2024, respectively. The contribution of tertiary industry to the GDP increased steadily to 46.4% in 2024, compared with 41.1% and 44.3% in 2022 and 2023, respectively. The fixed asset investment of Xiao County maintained a double-digit growth in the past few years, and its growth rate ranged between 10.4% and 11.4% in 2022-2024.

Xiao County's GDP and Fixed Asset Investment			
(RMB billion)	2022	2023	2024
GDP	43.2	44.4	48.8
-Primary industry (%)	17.5	16.9	15.7
-Secondary industry (%)	41.4	38.8	37.9
-Tertiary industry (%)	41.1	44.3	46.4
GDP growth rate (%)	5.1	5.7	6.0
Fixed asset investment growth rate (%)	10.4	11.4	11.1
Population (million)	1.0	1.0	1.0*

* Estimated data
 Source: Public information and Lianhe Global's calculations

Fiscal Condition of Xiao County

The budgetary revenue of the Xiao County government decreased to RMB1.9 billion in 2024 from RMB2.2 billion in 2023, but the proportion of tax revenue increased to 59.5% from 53.5% over the same period. The fiscal self-sufficiency rate of Xiao County was low and its fiscal deficit expanded to 298.9% in 2024 from 235.3% in 2023. Therefore, the Xiao County government relies heavily on government fund income and transfer payments from higher government. The government fund income recovered to RMB1.4 billion in 2024.

The outstanding debt of the Xiao County government kept growing in past few years. At end-2024, the Xiao County government's outstanding debt increased to RMB13.6 billion from RMB11.7 billion at end-2023, mainly due to the issuance of special purpose debts to support local public projects. Its government debt ratio, as measured by the total government debt/aggregate revenue, increased to 200.4% at end-2024 from 149.2% at end-2023.

Xiao County's Fiscal Condition			
(RMB billion)	2022	2023	2024
Budgetary revenue	2.1	2.2	1.9
Budgetary revenue growth rate (%)	-12.8	7.9	-14.2
Tax revenue	1.1	1.2	1.1
Tax revenue (% of budgetary revenue)	53.9	53.5	59.5
Government fund income	2.9	1.1	1.4
Transfer payment	4.6	4.6	3.5*
Aggregate revenue	9.5	7.9	5.4*
Budgetary expenditure	8.0	7.4	7.6
Budget balance ¹ (%)	291.3	235.3	298.9

¹ Budget balance = (1 - budgetary expenditure / budgetary revenue) * 100%
 * Estimated data
 Source: Public information and Lianhe Global's calculations

Company Profile

XCCIG was established in July 2016 with an initial registered capital of RMB2 billion. At end-2024, XCCIG's registered and paid-in capital was RMB2 billion and RMB441 million, respectively. 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.

XCCIG's revenue increased steadily from RMB189 million in 2022 to RMB446 million and RMB484 million in 2023 and 2024, respectively. The major sources of revenue were agent construction and grain sales and storage segments. Its gross margin remained steady at 15.6-17.1% in 2022-2024.

Key Financial Data

(RMB million)	2022	2023	2024
Total Assets	10,590	13,128	15,755
Equity	7,208	7,290	7,342
Debt	3,247	5,414	8,008
Debt / (Debt + Equity) (%)	31.1	42.6	52.2
Unrestricted cash/ST Debts (x)	0.05	0.13	0.05
Debt/EBITDA (x)	13.9	58.2	106.9
Revenue	189	446	484
Operation Profit	74	68	64
Gross Margin (%)	17.1	15.6	16.5
Cash from sales or services/ Revenue (%)	203.8	107.3	91.4

Source: XCCIG and Lianhe Global's calculations

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