Credit Rating Report for Fuzhou Urban Construction Investment Group Co., Ltd. 2019-1 Corporate Bond

Ratings:

Long-term credit rating of the issuer: AAA
Bond credit rating: AAA
Outlook: Stable

Scale of this issuance (current tranche): CNY 300 million
Maturity (current tranche): 5 + 5 years
Debt servicing method: Annual interest payment, principal repayment in installment
Use of proceeds: Working capital replenishment

Date of rating: April 12, 2019

Financial data

Item	2015	2016	2017
Cash assets (CNY100mln)	63.83	108.02	90.52
Total assets (CNY 100mln)	979.13	1287.58	1459.18
Owner's equity (CNY 100mln)	448.06	605.59	779.68
Short-term liabilities (CNY 100mln)	58.11	55.31	105.97
Long-term liabilities (CNY 100mln)	242.03	374.72	287.09
Total liabilities (CNY 100mln)	300.13	430.03	393.07
Operating income (CNY 100mln)	47.46	76.47	149.35
Total profit (CNY 100mln)	9.04	11.97	13.05
EBITDA (CNY 100mln)	10.24	14.33	17.28
Net cash flow from operating activities (CNY 100mln)	-118.38	-73.98	-14.77
Operating profit margin (%)	13.89	12.12	9.30
ROE (%)	1.77	1.71	1.47
Debt-to-asset ratio (%)	54.24	52.97	46.57
Total debt capitalization ratio (%)	40.11	41.52	33.52
Current ratio (%)	210.78	275.71	267.24
Operating cash coverage ratio (%)	-46.18	-25.60	-4.40
Total liabilities / EBITDA (x)	29.31	30.00	22.75
EBITDA interest multiple (x)	0.71	0.79	0.65

Notes: 1. In the Report, other interest-bearing part of current liabilities are recognized as short-term liabilities for accounting purposes;
2. Interest expenses are replaced by distributed dividends, profits or cash payments of interest in the calculation of EBITDA interest multiple.

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Perspectives of Rating

The ratings assigned by China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as "Lianhe Credit") to Fuzhou Construction Investment Co., Ltd. (hereinafter referred to as the "Company") demonstrate continuous economic development and consistent fiscal revenue growth in Fuzhou, and the fact that the Company has received strong support from the Fuzhou municipal government as a major investment conglomerate in the city which is tasked with projects such as downtown infrastructure construction, comprehensive district redevelopment and affordable housing development. The Company has delivered consistent growth in assets, owner's equity and operating income. On the other hand, Lianhe Credit also noticed that expenses incurred in contracted municipal infrastructure construction and comprehensive district redevelopment projects account for a considerable proportion of the Company's assets, resulting in a short of asset liquidity; and a continuous net cash outflow is observed in the Company's operating activities, which may adversely affect the Company's business operations and development in future. Fuzhou will intensify urban infrastructure construction and district redevelopment efforts, thereby putting the Company under greater financing pressure.

As one of the major urban infrastructure construction entities in the city, the Company is expected to continue scaling up its district development operation, expanding its business scale and further increasing its profitability. As a result, Lianhe Credit assigns a "Stable" outlook for the Company.

Lianhe Credit concludes that the risk of a default on bond repayment is extremely low, based on a comprehensive assessment of the bond issuer's long-term credit history and its ability to repay debts associated with this tranche of the bond.

Strengths

1. Economic development in Fuzhou has remained stable, and municipal revenues have grown steadily, creating a favorable external environment for the development of the Company.
2. As one of the major investment conglomerates in Fuzhou, the Company is responsible for downtown infrastructure construction, comprehensive district redevelopment and affordable housing development. In addition, it has received continuous business and funding support from the government.
3. The Company's operating income increased substantially in recent years, driven by growth in construction income, the completion of a series of affordable housing projects and the transfer of income from completed projects.
4. Different from one-time repayment, the arrangement of repayment by installment for this tranche of the bond effectively reduces the debt servicing pressure on the Company.

Concerns

1. The overall asset liquidity is relatively low, due to a number of factors: (i) the majority of the Company's assets is non-current assets, for example, the district redevelopment projects, municipal infrastructure construction expenses and buildings; (ii) repurchase arrangements have not been made for contracted municipal infrastructure projects thus far; and (iii) revenue collection of comprehensive district redevelopment projects is subject to urban land planning and future land auctions.
2. The Company has spent quite a lot in building relocation houses, leading to a continuous net operating cash outflow. The Company is under considerable external financing pressure.