

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Huzhou Wuxing Xinye Construction Investment Group Co. Ltd., with stable outlook.**

Hong Kong, 24 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>- long-term credit rating to Huzhou Wuxing Xinye Construction Investment Group Co. Ltd. (“WXCI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of WXCI reflects Wuxing District Government's strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company's characteristics. Our assessment of Wuxing District Government's capacity to support reflects the Wuxing District's leadership as the first ranking in GRP in Huzhou City and the local government's moderate fiscal metrics and debt profile.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in infrastructure construction with regional franchise; and (2) good track record of receiving government payment. However, the Company's rating is constrained by its (1) increasing exposure to commercial activities; (2) high debt growth and moderate asset liquidity; and (3) contingent liability risk from guarantees for local SOEs and private-owned property developers.

### **Corporate Profile**

Established in November 2012, WXCI is developed into an important investment and construction platform in Wuxing District and is primarily engaged in infrastructure construction and park development. The Company also conducts commercial business such as trading, testing and mapping. As of 30 June 2022, Huzhou Wuxing City Investment Development Group Co., Ltd. (“WCID”) held 100% shares of WXCI, and the Company is ultimately governed by the Finance Bureau of Wuxing District, Huzhou City. After several government capital injections, the Company's paid-in capital reached RMB2.0 billion at the end of June 2022.

### **Rating Rationale**

#### **Credit Strengths**

**Important role in infrastructure construction with regional franchise.** As an important infrastructure construction arm of Wuxing District, WXCI is mainly responsible for infrastructure construction including the construction of roads and bridges, affordable housing, and landscaping in the Balidian Town of Wuxing District. In the first half of 2022, the Company has completed 2 infrastructure projects, including supporting construction of new rural communities in the east of Xinye District, with a total investment of RMB577.0 million. Given its important role in local infrastructure construction, we expect the Company is unlikely to be replaced in the foreseeable future.

**Good track record of receiving government payments.** WXCI has a proven track record of receiving government support in the form of capital injection, asset injection, project payment,



and financial subsidies. In 2020, the Wuxing District Government injected the headquarters of Freeport Office Building A with a value of RMB282.0 million into the Company. From 2020 to 2021 and the Government of Balidian Town and Wuxing District Finance Bureau injected cash of RMB300.0 million into the Company. Over the past three years, the Company has received total governmental subsidies of RMB14.2 million. We expect the local government will continue to provide ongoing support to the Company, given WXCI's important role in the investment and construction of the Wuxing District.

### **Credit Challenges**

**Increasing exposure to commercial activities.** The Company conducts the property development and operation business, including the development, construction, operation and management of the industrial park. The Company mainly recovers the investment of such industrial park construction projects through sales and leasing factory buildings, and the sales or leasing business income is easily affected by local policies and economic fluctuations. Despite this, this business still has a certain policy orientation, which can attract high-quality enterprises and talents to the region. The Company's trading business mainly involves trading non-ferrous metals such as electrolytic copper, which provides a large amount of income to the Company. However, the high concentration of trading business suppliers and customers may have a certain impact on the Company's revenue stability. Overall, we believe the Company's commercial risk is manageable. However, the Company has counterparty risks to private real estate companies, including other accounts receivable and new guarantees for private real estate companies. Considering the recent downturn in the real estate market, we will continue to pay attention to the Company's commercial business risks.

**High debt growth and moderate asset liquidity.** Due to continued financing for construction projects, WXCI demonstrated high debt growth in the past three years. Its total debt has increased from RMB1.7 billion at end-2019 to RMB13.0 billion at mid-2022, with a total capitalization ratio of 60.9% as of 30 June 2022. In terms of debt structure, the short-term debt to total debt ratio increased from 38.9% at end-2019 to 40.3% at mid-2022, indicating that its debt structure needs to be improved. Given the large capital needs from the construction projects for the development of Wuxing District, we expect the Company's debt growth to remain at a relatively high level. In addition, WXCI's asset liquidity is moderate. As of 30 June 2022, the Company has a number of restricted assets such as land and properties, with a total amount of RMB3.8 billion, accounting for around 17.0% of its total assets.

**Contingent liability risk from guarantees for local SOEs and private-owned property developers.** WXCI has exposure to contingent liabilities. As of 30 June 2022, the Company's external guarantee amount was RMB5.4 billion, accounting for 24.1% of its total assets. Most of the external guarantee are provided to local state-owned enterprises in Wuxing District. Due to its joint venture partnership in property development project, the Company provided a large-scale guarantee to a private-owned enterprise, Zhejiang Xiangrui Real Estate Development Co., Ltd., and its subsidiaries in 2021. The Company may face considerable contingent liability risk when a default event occurs, which is credit negative for its credit quality.

## Rating Outlook

The stable outlook on WXCI's rating reflects our expectation that the Wuxing District Government's capacity to provide support will be stable, and that the Company will maintain its strategic role in local infrastructure construction and park development in Wuxing District over the next 12 to 18 months.

### What could upgrade the rating?

The rating could be upgraded if (1) Wuxing District Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increase in strategic significance and improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Wuxing District Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decreased government payments, or weakened funding capabilities.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

## Regulatory Disclosures

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