

CCXAP assigns first-time long-term credit rating of BBB_g- to Huzhou Wuxing Industrial Investment Development Group Co., Ltd., with stable outlook.

Hong Kong, 4 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Huzhou Wuxing Industrial Investment Development Group Co., Ltd. (“WIID” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of WIID reflects Wuxing District Government’s strong capacity to support and very high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Wuxing District Government’s capacity to provide support reflects its leadership as the first ranking by gross regional product (“GRP”) in Huzhou City and the local government’s moderate fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership and ultimate control by the Wuxing District Government; (2) leading position in public projects development of Wuxing District; and (3) good track record of receiving government payments. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) high debt growth and moderate asset liquidity; and (3) contingent liability risk from external guarantees.

Corporate Profile

Established in June 2013, WIID is developed into an important investment and construction platform in Wuxing District and serves as the core operating entity responsible for infrastructure construction, land consolidation and development, as well as sale of resettlement housing in Huzhou Southern Taihu High-tech Industrial Park (“Southern Taihu High-tech Park”), Wuxing District. The Company also engages in commercial business such as trading, property leasing and financial leasing. As of 30 June 2022, Huzhou Wuxing State-owned Capital Supervision and Administration Service Centre (“Wuxing District SCSAC”) held 100% shares of WIID, and the Company is ultimately governed by the Finance Bureau of Wuxing District, Huzhou City.

Rating Rationale

Credit Strengths

Leading position in public projects development of Wuxing District. WIID is one of the most important industrial investment and infrastructure construction platforms in Wuxing District, making outstanding contributions to the urbanization and sustainable economic development of the Southern Taihu High-tech Park in Wuxing District. As of 31 December 2021, the Company had 8 infrastructure construction projects under construction or planning, with a total investment of RMB3.9 billion; the Company had 7 land consolidation projects, with a total investment of RMB775.0 million and a total area of 887 mu, which were expected to be completed by 2022 and 2023. We expect that sufficient project reserves can support the Company’s sustainable business development in the next 3 to 5 years. Given the Company’s

important role in the local economic development, we expect WIID is unlikely to be replaced in the foreseeable future.

Good track record of receiving government payments. WIID has a proven track record of receiving government support in the form of capital injection, asset injection, and financial subsidies. From 2019 to 2021, the Company received government subsidies of approximately RMB71.0 million, RMB88.5 million and RMB341.2 million, respectively. In 2020, the Wuxing District SCSAC transferred 100% of the equity of Huzhou Shentai Construction Development Co., Ltd. (“Shentai Construction”) and Huzhou South Taihu High-tech Park Development Management Co., Ltd. to the Company; the local government has also injected funds and assets into the Company. In 2021, the Company has received a total of RMB2.0 billion of capital injection from the Wuxing District SCSAC. From 2020 to 2021, the Company received RMB470.5 million for the agency construction projects and land consolidation from the Management Committee of Southern Taihu High-tech Park.

Credit Challenges

Medium exposure to commercial activities. WIID's commercial businesses mainly include trading and property development. Trading business is one of the primary businesses of the Company. The Company is engaged in trading cathode copper and crude lead through its subsidiaries, namely Huzhou Wuxing Husheng Trading Co., Ltd. and Huzhou Wuxing Husheng Supply Chain Management Co., Ltd., respectively. The Company conducts the property development and management business through its subsidiary Shentai Construction. However, income from this business is subject to uncertainty due to project construction and sales progress, and future investment in industrial park projects will further increase the Company's capital pressure. The Company also involves in the equity investment and financial leasing business. Such businesses are mainly carried out to support the development of local industries, and the counterparties are mostly private enterprises. We will continue to focus on post-investment risks.

High debt growth and moderate asset liquidity. Due to continued financing for construction projects, WIID demonstrated moderate debt growth in the past three years. Its total debt has increased from RMB12.3 billion at end-2019 to RMB28.9 billion at mid-2022, with a total capitalization ratio of 66.9% as of 30 June 2022. In terms of debt structure, the short-term debt to total debt ratio increased from 44.3% at end-2019 to 46.2% at mid-2022, indicating that its debt structure needs to be improved. The high amount of restricted assets and accounts receivables may undermine the Company's financing flexibility, which is credit-negative.

Contingent liability risk from external guarantees. WIID has exposure to contingent liabilities. As of 30 June 2022, the Company's external guarantee amount was RMB4.9 billion, accounting for 30.8% of its net assets. Most of the external guarantees are provided to local state-owned enterprises in Wuxing District. The state-owned enterprise has a strong ability to avoid liability risks. However, due to the regional concentration of guaranteed enterprises, 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 WIID'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 land 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 decreased commercial activities 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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