

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

Hong Kong, 2 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBBg- long-term credit rating to Huzhou Wuxing City Investment and Development Group Co., Ltd. (“WCID” or the “Company”), with stable outlook.

The BBBg- long-term credit rating of WCID 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) strong strength and prominent position in infrastructure construction and land development in Wuxing District; (2) substantial reserves of public policy projects; and (3) solid track record of receiving government payments. However, the Company’s rating is constrained by its (1) relatively high debt leverage and moderate asset liquidity; (2) reliance on non-standard financing; and (3) high contingent liability risk from external guarantees with exposure to private enterprises.

Corporate Profile

Established in January 2004, formerly known as Huzhou City Wuxing District State-owned Assets Investment Holding Co., Ltd. WCID is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Wuxing District. As one of the most important infrastructure construction and land development platforms in Wuxing District of Huzhou City, the Company is tasked to implement infrastructure construction, land development and relocation housing development plans of Wuxing District Government. It is also involved in commercial businesses including trading, property development and management, inspection and surveying businesses. As of 30 June 2022, the Company was wholly-owned by Huzhou Wuxing State-owned Capital Supervision and Administration Service Centre (“Wuxing Service Centre”), and its ultimate controlling shareholder was Huzhou City Wuxing District Finance Bureau (“Wuxing Finance Bureau”).

Rating Rationale

Credit Strengths

Strong strength and prominent position in infrastructure construction and land development in Wuxing District. WCID is one of the most prominent infrastructure construction and land development platforms in Wuxing District of Huzhou City. With over 17 years of experience in infrastructure construction and land development, WCID has a proven

track record of successfully delivering numerous high-profile and quality infrastructure construction and land development projects in Wuxing District.

Substantial reserve of public policy projects. As of 30 June 2022, the Company had project reserves of 21 projects under construction or planning, which are planned to invest around RMB7.4 billion with an uninvested amount of RMB 6.1 billion; the Company had 16 land parcels with a total area of 2923.5 mu under construction or planning, with an estimated total investment of RMB1.4 billion and an uninvested amount of RMB956.1 million; the Company had 3 relocation housing projects under construction or planning, with an estimated total investment of RMB2.7 billion and an uninvested amount of RMB2.1 billion. We expect that sufficient project reserves can support the Company's sustainable business development in the next 3 to 5 years.

Strong support from government payments. WCID has a proven track record of receiving government support in the form of capital injection, asset transfers, project payment, financial subsidies, favorable policies and tax incentives. From 2019 to 2021, the Company received government subsidies of approximately RMB303.3 million, and fiscal interest discounts of RMB1.2 billion, respectively. As of 30 June 2022, the Company received RMB1.1 billion for infrastructure construction projects and land development from the local government. We expect the local government will continue to provide ongoing support to the Company, given WCID's important role in the investment and construction of the Wuxing District.

Credit Challenges

Relatively high debt leverage and moderate asset liquidity. WCID's debt leverage is increasing, which is driven by large capital expenditure. Its total debt has increased from RMB46.9 billion at end-2020 to RMB50.6 billion at mid-2022, with a total capitalization ratio of 69.5% as of 30 June 2022; the Company had a number of restricted assets with a total amount of RMB7.7 billion, accounting for around 10% of its total assets. And the Company has accounts receivables and inventories of RMB49.2 billion at mid-2022, accounting for around 62.9% of its total assets.

High contingent liability risk from external guarantees with exposure to private-owned enterprises. WCID has high exposure to contingent liabilities. As of 30 June 2022, the Company's external guarantee amount was RMB22.4 billion, accounting for 89.5% of its net assets. Most of the external guarantees are provided to local state-owned enterprises in Wuxing District. And the Company increased guarantees to private-owned property developers 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 WCID'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 important 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 contingent liability and improved asset liquidity.

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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