

CCXAP assigns first-time long-term credit rating of BBB_g- to Huzhou Nanxun State-owned Assets Investment Holding Co., Ltd., with stable outlook.

Hong Kong, 17 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Huzhou Nanxun State-owned Assets Investment Holding Co., Ltd. (“NXSA” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of NXSA reflects Nanxun District Government’s relatively strong capacity to provide support, and its extremely high willingness to provide support to the Company based on our assessment of the Company’s characteristics. Our assessment of Nanxun District Government’s capacity to provide support reflects its relatively good economic fundamentals and fiscal strength, with a gross regional product (“GRP”) among all the counties across the country, while its fiscal balance ratio was moderate.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position as the primary platform owned and controlled by Nanxun District Government; (2) key roles in infrastructure construction and public services in Nanxun District; (3) good track record of receiving government payments; and (4) diversified sources of funding. However, the rating is constrained by the Company’s (1) medium commercial business risk; (2) moderate debt management and asset liquidity; and (3) moderate contingent liability risk associated with external guarantees.

Corporate Profile

Established in 2004, NXSA is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Nanxun District. The Company is mainly engaged in infrastructure construction, affordable housing rental and sales business, and the provision of public services such as sewage treatment, greening and pipeline network maintenance in Nanxun District. In addition, the Company also conducts commercial businesses such as commercial trading, property development and leasing. As of 30 June 2022, NXSA was 93.13% owned by the Finance Bureau of Nanxun District indirectly through Zhejiang Xingshanghe Urban Development Group Co., Ltd.(“XSHG”), and 6.88% owned by the Zhejiang Provincial Department of Finance through Zhejiang Financial Development Co., Ltd. NXSA is ultimately controlled by the Finance Bureau of Nanxun District.

Rating Rationale

Credit Strengths

Primary platform for infrastructure construction and public services in Nanxun District.

There are five major LIIFCs in Nanxun District to support local economic and industrial development. Each has a clear position under the local government’s planning. As of end-2021, NXSA was the largest LIIFC by total assets in Nanxun District. In June 2022, Nanxun District Government transferred the equity shares of Company into XSHG. In addition, Huzhou Nanxun Tourism Investment Development Group Co., Ltd.(“NXTI”) was transferred out of the Company.

Therefore, NXSA currently no longer undertakes the tourism business and focuses on local infrastructure investment and construction and public utilities. The transfer of NXTI did not significantly reduce the Company's assets scale, because the Nanxun government continued to inject building assets into the Company for replacement.

Good track record of receiving ongoing government payments. The local government provides strong support to the Company for its business development through various forms such as project payments, cash injections, equity transfers, asset injections and financial subsidies, which significantly enhanced the capital strength and increased operational assets. Given its key roles in infrastructure construction and public services, we expect the local government will continue to support the Company in the future.

Diversified sources of funding. NXSA has diversified sources of funding including bank loans, onshore and offshore bond issuances, and debt financing instruments. The Company maintains a good relationship with policy banks and large domestic banks such as Agricultural Development Bank of China and Industrial and Commercial Bank of China Limited. As of mid-2022, the Company's total credit facilities were RMB26.4 billion, of which the unutilized amount was about RMB6.8 billion. The Company also has good access to both the onshore and offshore debt markets. During 2022, the Company and its subsidiaries issued 3 tranches of onshore bonds and 1 offshore bond, raising around RMB1.9 billion and RMB350 million, respectively.

Credit Challenges

Medium commercial business risk. NXSA also participated in commercial activities such as commercial trading, property development and property leasing business. By the end of 2021, the Company had moderate commercial exposure with the proportion of commercial business assets being less than 30% of its total assets. In 2021, the Company generated revenue of around RMB212.3 million with a gross profit margin rate of around 49.6% from property development business, which mainly came from the sale of commercial housing. Such business exposes the Company to higher business risk due to large investment and high reliance on market prospect especially under the gloomy outlook of the property market in recent years.

Moderate debt management and asset liquidity. NASA's total debt continued to increase in the past three years as ongoing investment needs and long payback period of its business. From 2019 to 2021, the Company's total debt increased from RMB35.0 billion to RMB42.7 billion. At mid-2022, as NXTI transferred out of the Company, NXSA's total debt decreased to RMB34.1 billion. NXSA's asset liquidity was moderate as they were mainly inventories and government related receivables, with weak liquidity. As of mid-2022, the inventories amounted to RMB34.3 billion, accounting for 46.1% of total assets. At the same time, government related receivables totally accounted for 10.1% of total assets.

Moderate contingent liability risk associated with external guarantees. NXSA is exposed to a moderate contingent liabilities risk. In mid-2022, the Company recorded an external guarantee amount of RMB16.5 billion, accounting for 54.0% of its net assets. Nevertheless, all these external guarantees were provided to local state-owned enterprises("SOE") or



enterprises set up by local economic cooperatives, which are supervised by the local government.

Rating Outlook

The stable outlook on NXSA's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and that the Company will maintain its key roles in infrastructure construction and public services in Nanxun District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as decrease in exposure to commercial activities; or improvement in debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

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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