

CCXAP assigns first-time long-term credit rating of BBB_g- to Taizhou City Huangyan City Construction Investment Group Co., Ltd., with stable outlook.

Hong Kong, 3 February 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g- to Taizhou City Huangyan City Construction Investment Group Co., Ltd. (“HYCI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of HYCI reflects (1) Huangyan District Government’s relative strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Huangyan District Government’s capacity to provide support reflects Huangyan District’s good fiscal stability and moderate fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as one of the main state-owned enterprises fully controlled by the local government; (2) key policy role in the infrastructure construction and resettlement housing in Huangyan District; and (3) good track record of receiving government special fund. However, the rating is constrained by the Company’s (1) moderate debt management with increased debt level and weak asset liquidity; and (2) moderate exposure to contingent liabilities related to state-owned enterprises.

Corporate Profile

Established in 2012, HYCI is one of the most important local infrastructure investment and financing companies (“LIIFCs”) in Huangyan District. It is responsible for multiple public-related activities including urban infrastructure construction, resettlement housing, water supply and hydraulic construction. The Company is also engaged in commercial activities, mainly including human resources services, security services, property services and garden engineering. As of 30 June 2022, HYCI was wholly and directly owned by Taizhou City Huangyan State-owned Capital Investment and Operation Group Co., Ltd. (“HYSI”), and it was ultimately controlled by the Finance Bureau of Huangyan District.

Rating Rationale

Credit Strengths

Key policy role in the infrastructure construction and resettlement housing in Huangyan District. HYCI is one of the main LIIFCs in Huangyan District, managing state-owned assets and implementing the Huangyan District Government’s major strategic initiatives for urban development. The Company plays an important role in public-related activities including infrastructure and resettlement housing construction in Huangyan District, except Huangyan Economic Development Zone. We expected that the Company’s role in resettlement housing construction is less likely to be replaced by other LIIFCs, given its essential role and large project reserves on hand.

Good track record of receiving government special fund. As one of the most important infrastructure construction entities in Huangyan District, HYCI has continuously received a large amount of special fund from the local government for the resettlement housing, infrastructure construction and garden engineering projects, which greatly ease the financing pressure. From 2019 to 2022H1, the Company received totally around RMB3.8 billion government special fund. Along with the progress of resettlement housing construction, we expect the Company will continue to receive special fund from the local government.

Credit Challenges

Moderate debt management with increased debt level and weak asset liquidity. HYCI's total debt has increased rapidly over the past three years mainly due to the large investment in resettlement housing. From 2019 to 2022H1, its total debt increased from RMB4.1 billion to RMB 14.0 billion, with a total capitalization ratio of 46.8%. Furthermore, HYCI's asset liquidity is weak as they were mainly comprised of inventories, other receivables and other non-current assets with low liquidity. The relatively high proportion of assets with low liquidity may cause capital occupation to the Company.

Moderate exposure to contingent liabilities related to state-owned enterprises. HYCI had moderate exposure to contingent liabilities as its external guarantees was 23.7% relative to total equity as of 30 June 2022. The external guarantees amounted to RMB3.8 billion, all of which were provided to its parent company, and other SOEs in Huangyan District and Taizhou City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on HYCI's rating reflects our expectation that Huangyan District Government's capacity to provide support will remain stable, and the Company will maintain its vital position in the infrastructure construction and resettlement housing in Huangyan District.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Huangyan District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.



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

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Peter Chong

Senior Analyst

+852-2860 7124

peter_chong@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656