CCXAP assigns first time long-term credit rating of BBB_{g}- to Zhejiang Huzhou Nanxun Economic Construction Development Co., Ltd., with stable outlook.

Hong Kong, 27 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_{g}- to Zhejiang Huzhou Nanxun Economic Construction Development Co., Ltd. (“NECD” or the “Company”), with stable outlook.

The BBBg- long-term credit rating of Zhejiang Huzhou Nanxun Economic Construction Development Co., Ltd. (“NECD” or the “Company”) 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 good geographic advantage and improving economic fundamentals, but constrained by modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction in Nanxun Economic and Technological Development Zone (“Nanxun ETDZ”); (2) good access to diversified funding channels; and (3) good track record of receiving ongoing government payments. However, the rating is constrained by the Company’s increasing debt burden and moderate asset liquidity.

Corporate Profile

Established in 1997, NECD is designated to carry out the directions and policies of Nanxun ETD Management Committee. It is an important local infrastructure construction entity in Nanxun District. The Company is mainly engaged in infrastructure construction in Nanxun ETDZ. In addition, the Company also conducts commercial businesses such as trading, land leasing and surveying and mapping services. As of 30 September 2022, NECD was 100% owned by Huzhou Nanxun Xinkai Construction Group Co., Ltd (“Nanxun Xinkai”). NECD is ultimately controlled by the Finance Bureau of Nanxun District, with a registered and paid-in capital of RMB2.0 billion.

Rating Rationale

Credit Strengths

Important platform for infrastructure construction in Nanxun ETDZ. NECD is an important platform responsible for infrastructure construction in Nanxun ETDZ. Such projects were mainly relevant to the construction of roads, bridges and demolition projects. Overall, the infrastructure construction business is sustainable given the considerable construction projects in the pipeline. However, they also exert great pressure on the Company’s capital expenditure. We expect that the leading position of the Company will be maintained in the foreseeable future given its sufficient project reserves.

Good track record of receiving ongoing government payments. NECD has a proven track record of receiving government support in the form of capital injection, asset transfers, project payments and financial subsidies. In 2021, The Management Committee of Nanxun ETDZ injected various assets including scenic spot franchise rights and parking space into the Company, increasing the Company's total capital reserve by RMB2.5 billion; its controlling shareholder Nanxun Xinkai has injected RMB1.5 billion into the Company. During the period from 2020 to 2022Q3, the Company has received the projects payments from infrastructure construction projects of a total amount of RMB3.4 billion. During the same period, the Company received RMB600.3 million in government subsidies to support its operation.

Good access to diversified funding channels. NECD has diversified sources of funding including bank loans, onshore and offshore bond issuances. The Company maintains a good relationship with policy banks and large domestic banks such as Agricultural Development Bank of China and Bank of China Limited. As of 30 September 2022, the Company's total credit facilities were RMB16.3 billion, of which the unutilized amount was about RMB4.0 billion. The Company also has access to debt capital markets. As of 30 September 2022, the Company and its subsidiary had 12 onshore and 2 offshore outstanding bonds, with a total outstanding amount of RMB5.4 billion and USD76.5 million, respectively.

Credit Challenges

Increasing debt burden and moderate asset liquidity. NECD's total debt continued to increase in the past three years as ongoing investment needs. From 2019 to 2022Q3, the Company's total debt increased from RMB5.2 billion to RMB15.0 billion, and its total capitalization ratio maintained at a relatively high level of around 47.2% in 2022Q3. NECD's asset liquidity was moderate as they were mainly inventories with weak liquidity. As of 30 September 2022, the inventories amounted to RMB19.9 billion, accounting for 61.7% of total assets, and mainly consisted of the lands and construction cost caused by infrastructure construction projects. Furthermore, as of 30 September 2022, the Company had pledged assets of RMB1.6 billion for loans, accounting for 10.1% of net assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Rating Outlook

The stable outlook on NECD'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 important roles in the infrastructure construction in Nanxun ETDZ.

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 strengths the local government's willingness to support, such as 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).

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