

CCXAP assigns first time long-term credit rating of BBB_g- to Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd., with stable outlook.

Hong Kong, 11 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd., (“NXCD” or the “Company”) with stable outlook.

The BBB_g- long-term credit rating of Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd. 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 its 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 District, especially the Shanghai Innovation Cooperation Zone (“SICZ”); (2) high sustainability for public policy projects; and (3) track record of receiving government payments. However, the rating is constrained by the Company’s (1) capital expenditure leads to increased debt burden and (2) moderate asset liquidity.

Corporate Profile

NXCD, formerly known as Huzhou Nanxun Zhenxun Investment Development Co., Ltd., was founded in 2010 with a registered and paid-in capital of RMB5 million. In 2022, the Company changed its name to Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd. and was consolidated into Zhejiang Xingshanghe Urban Development Group Co., Ltd. (“Xingshanghe”). As of 31 December 2022, it is ultimately controlled by the Finance Bureau of Nanxun District, with a registered and paid-in capital of RMB600 million. As one of the local infrastructure construction entities, the Company is mainly engaged in infrastructure construction and land consolidation in the central urban area and suburbs of Nanxun District including SICZ. In addition, the Company also conducts commercial businesses such as trading, leasing and parking management.

Rating Rationale

Credit Strengths

Important role in infrastructure construction in Nanxun District including SICZ. Xingshanghe is one of the four major local platforms in Nanxun District. As a subsidiary of Xingshanghe, the Company is mainly engaged in infrastructure construction and land consolidation in the central urban area and suburbs of Nanxun District including SICZ, and it is also the sole platform responsible for SICZ. Such projects were mainly relevant to the construction of roads, bridges, parks and water conservancy facilities.

Track record of receiving government payments. NXCD has a proven track record of receiving government support in the form of capital injection, asset transfers, project payments and financial subsidies. From 2020 to 2022, the Company has received asset transfers from the government including greening projects, parking spaces, and advertising management rights, increasing the Company's total capital reserve by RMB2.4 billion. During the period from 2020 to 2022, the Company has received the projects payments from infrastructure construction projects of a total amount of RMB137.7 million. During the same period, the Company received RMB153.8 million in government subsidies to support its operation. With the establishment of the SICZ in 2022, the Company strengthened its role in the construction of the SICZ, and increased the paid-in capital. We expect the local government will continue to support the Company in the future.

Access to funding mainly from commercial banks. The Company maintains a good relationship with several banks, including Policy Banks such as Agricultural Development Bank of China and Commercial Banks such as Industrial and Commercial Bank of China Nanxun Branch. Most large projects are connected with the Agricultural Development Bank, at a low rate of around 4% to 4.8%. As of 31 December 2022, the Company's total credit facilities were RMB6.1 billion, of which the unutilized amount was about RMB2.0 billion. In addition, the Company's reliance on non-standard financing is low, accounting for less than 10% of its total debt. NXCD also plans to tap the offshore debt capital markets to broaden its funding sources.

Credit Challenges

Increasing exposure to commercial activities. NXCD participated in commercial activities such as trading, leasing and parking management business. The Company's trading business products mainly include radiata pine logs, cotton, ethylene glycol, and pure terephthalic acid. The Company also participated in the leasing business, including the rental of property and parking spaces. As of 31 December 2022, the Company had 3 self-operated projects under construction, with an estimated investment of RMB3.8 billion, including industrial park projects and a parking lot project. The self-operated projects are in the early stage of land acquisition and have a long construction period, and the source of funds is self-raised by the Company. We expect that the projects exert capital expenditure pressure on the Company. In addition, with the development of SICZ and the construction of the self-operated projects, the Company may increase commercial exposure.

Increasing debt burden and moderate asset liquidity. NXCD's total debt continued to increase in the past three years as ongoing investment needs. From 2020 to 2022, the Company's total debt increased from RMB1.7 billion to RMB5.5 billion, and its total capitalization ratio maintained at a relatively high level of around 47.8% in 2022. Given its expanding projects, we expect the Company will have great pressure on capital expenditure in the future. NXCD's asset liquidity was moderate as they were mainly inventories with weak liquidity. The Company also has large-scale transfers of assets from the government that has not yet processed the ownership certificates. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Rating Outlook

The stable outlook on NXCD'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 District including SICZ.

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 improvement in debt management and asset quality.

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

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.

Olivia Feng

Credit Analyst

+852-2860 7133

olivia_feng@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