

CCXAP assigns first-time long-term credit rating of BBB_g to Zhejiang Xinchang Investment Development Co., Ltd., with stable outlook.

Hong Kong, 30 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Zhejiang Xinchang Investment Development Co., Ltd. (“ZXID” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of ZXID reflects (1) Xinchang County Government’s 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 Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant strategic role as the largest state-owned enterprise in Xinchang County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

Corporate Profile

Established in 2003, ZXID is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Xinchang County. It plays the most important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment, and public transportation. Besides, the Company also engages in some commercial activities such as engineering construction, material trading and property leasing. As of 31 December 2022, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission Office of the People’s Government of Xinchang County (“Xinchang SASAC”).

Rating Rationale

Credit Strengths

Dominant strategic role as the largest state-owned enterprise in Xinchang County. ZXID is the largest LIIFC in terms of total assets in Xinchang County and the primary LIIFC wholly owned and effectively controlled by Xinchang SASAC. The Company has played an essential and active role in implementing the Xinchang County Government’s major strategic initiatives for urban planning, municipal construction and utility and facility operation. Given its dominant strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

High sustainability for the public policy projects. Entrusted by the local government, ZXID has undertaken a large amount of infrastructure construction projects, such as roads, schools, resettlement housings, and pipe networks, in Old Town District, Xinchang Hi-Tech Industrial Park, and Xinchang Industrial Park of Xinchang County. As of 31 December 2022, the

Company had 25 major infrastructure construction projects under construction, with a total estimated investment of RMB14.2 billion and an uninvested amount of RMB4.7 billion. The Company has a large amount of infrastructure construction projects in the pipelines, indicating strong sustainability of the business, but exerting great capital expenditures pressure.

Good track record of receiving government payments. ZXID has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and asset transfers. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, ZXID is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider ZXID's commercial business exposure to be medium, as its market-driven businesses account for around 25% to 30% of its total assets.

High debt leverage and moderate asset quality. With ongoing financing for its construction projects in recent years, ZXID has a large debt burden and a high debt leverage. The Company's total debt increased from RMB49.1 billion at end-2020 to RMB87.7 billion as of 31 December 2022, with total capitalization of 63.1%. ZXID has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2022, the Company's total asset mainly consists of inventories and non-current assets, which accounted for 82.6% of its total asset.

Rating Outlook

The stable outlook on ZXID's rating reflects our expectation that Xinchang County Government's capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County 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 material decrease in exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang County 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 importance of its policy role, material decrease 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