

CCXAP assigns first-time long-term credit rating of BBB_g- to Huzhou Wuxing Economic Development and Investment Group Co., Ltd., with stable outlook.

Hong Kong, 8 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Huzhou Wuxing Economic Development and Investment Group Co., Ltd. (“WEDG” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of WEDG reflects Wuxing District Government’s strong capacity to support and its very high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Wuxing District Government’s capacity to provide support reflects its leadership as the first ranking by gross regional product (“GRP”) in Huzhou City and the local government’s moderate fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic importance in the infrastructure construction in Wuxing Economic Development Zone (“Wuxing EDZ”); and (2) track record of receiving government payments. However, the Company’s rating is constrained by its (1) increasing debt burden and moderate asset liquidity; (2) high dependence on non-standard financing; and (3) moderate contingent liability risk from external guarantees.

Corporate Profile

Established in December 2004, formerly known as Huzhou Daixi Urban Development Co., Ltd. As an important infrastructure construction entity in the Wuxing District of Huzhou City, WEDG is primarily engaged in infrastructure construction projects in Wuxing EDZ. It is also involved in commercial businesses including property leasing and merchandise trading. As of 31 December 2022, the Company was 60% owned by Huzhou Wuxing Development of State-owned Capital Investment Co., Ltd. (“WSCI”) and 40% owned by Huzhou Wuxing Transportation and Tourism Investment Development Group Ltd. The Company was ultimately wholly-owned by Wuxing District State-owned Assets Supervision and Administration Service Centre (“Wuxing Service Centre”), and People’s Government of Wuxing District of Huzhou City (“Wuxing District Government”) was its ultimate controlling shareholder.

Rating Rationale

Credit Strengths

Strategic importance in the infrastructure construction in Wuxing EDZ. As an important infrastructure construction entity in Wuxing District of Huzhou City, WEDG is primarily engaged in construction projects including road and bridge construction, comprehensive environmental improvement, sewage treatment and relocation housing construction. As of 31 December 2022, the Company has completed 6 key infrastructure construction projects with a total investment of around RMB2.8 billion, and there were 14 infrastructure construction projects under construction or planning, with a total outstanding amount of around RMB1.5 billion. Overall, the



Company's projects in the pipelines can ensure the sustainability of the business, but causing greater capital expenditure pressure on the Company.

Track record of receiving government payments. WEDG has a proven track record of receiving government support in the form of capital injection, asset transfers, tax incentives and financial subsidies. From 2020 to 2022, the Company received government subsidies of approximately RMB105.9 million. During the same period, the Company received asset transfers from the government including forest rights, mining right and the equity transfer of Huzhou Wuxing Shangqiang Industry and Trade Co., Ltd. and Huzhou Wuxing Beauty Town Construction Management Co., Ltd. ("BTCM"). We expect the local government will continue to provide ongoing support to the Company, given WEDG's important role in the infrastructure construction of Wuxing District, especially Wuxing EDZ.

Credit Challenges

Increasing exposure to commercial activities. WEDG's commercial businesses mainly include merchandise trading and property development. The merchandise trading business contributes supplementary income for the total revenue of the Company, accounting for 45% of its total revenue in 2022, but recording a very low gross profit margin of less than 1%. The Company also leases its commercial properties for rental revenue. In addition, the Company has some self-operated projects under construction, such as industrial parks, with a total investment amount of around RMB2.1 billion. The Company plans to achieve a funding balance for self-operated projects through leasing. We expect the proportion of the Company's commercial business will increase in the future.

Increasing debt burden and moderate asset liquidity. WEDG's debt burden is increasing, which is driven by the consolidation of other companies and large capital expenditure. Its total debt has increased from RMB0.9 billion at end-2020 to RMB5.5 billion at end-2022, with a total capitalization ratio of 42.3% as of 31 December 2022. WEDG's asset liquidity was moderate as they were mainly inventories and receivables with weak liquidity. As of 31 December 2022, the inventories and receivables amounted to RMB6.9 billion, accounting for 44.4% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects.

Diversified financing channels but high dependence on non-standard financing. WEDG has relatively good access to various sources of funding, including bank loans and offshore bond financing. As of 31 December 2022, the Company has obtained a total of RMB6.0 billion in bank credit facilities, with an available credit of RMB3.5 billion, indicating a sufficient liquidity buffer. In terms of direct financing, the Company had issued 2 USD bonds in the offshore debt market, with an outstanding amount of USD180 million as of 31 December 2022, with coupon rates of 3.1% and 5.2%. However, the Company is highly dependent on non-standard financing, accounting for 45.7% of the total debt at end-2022, with a relatively high interest rate of around 7.1%.

Rating Outlook

The stable outlook on WEDG's rating reflects our expectation that the Wuxing District Government's capacity to provide support will be stable, and that the Company will maintain its important role in local infrastructure construction in Wuxing EDZ over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Wuxing District Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreased debt burden and improved asset liquidity.

What could downgrade the rating? The rating could be downgraded if (1) Wuxing District Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decreased government payments, or weakened funding capabilities.

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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