CCXAP assigns first time long-term credit rating of BBB_{g}- to Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd., with stable outlook.

Hong Kong, 12 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first time long-term credit rating of BBB_{g}- to Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd., ("HPIC" or the "Company") with stable outlook.

The BBB_{g}- long-term credit rating of HPIC 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 Lianshi Town of Nanxun District; (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) large capital expenditure that leads to increased debt burden; (2) moderate asset liquidity; and (3) funding channels need to be improved.

Corporate Profile

Established in 2017, HPIC is an important local infrastructure construction entity in Nanxun District, and primarily undertakes infrastructure construction projects such as highway upgrading, shantytown renovation as well as road reconstruction projects in Lianshi Town of Nanxun District. The Company is also engaged in commercial activities including trading and property leasing. As of 31 December 2022, Nanxun District Finance Bureau was its ultimate controller, directly holding 75% of the Company's stake and indirectly holding the remaining 25% through Huzhou Nanxun Communications Water Conservancy Investment and Construction Group Co., Ltd. ("HNCW") and Huzhou Nanxun District Transportation Investment Group Co., Ltd. ("HNTI").

Rating Rationale

Credit Strengths

Important role in infrastructure construction in Lianshi Town of Nanxun District. HNTI is one of the four major local platforms in Nanxun District. Its wholly owned subsidiary, HNCW, holds 25% shares of the Company. Nanxun District Finance Bureau entrusts Lianshi Town People's Government to manage the Company. As an important entity in Nanxun District, the Company is mainly engaged in infrastructure construction in Lianshi Town. The infrastructure construction business is sustainable given the considerable construction projects in the pipeline.

Track record of receiving government payments. HPIC has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. From 2020 to 2022, the Company has received asset transfers from the government including greening projects, and parking spaces operations right, increasing the Company's total capital reserve by RMB5.8 billion. During the period from 2020 to 2022, the Company received RMB738.0 million in government subsidies to support its operation. Given its important position in Lianshi Town, we expect the local government will continue to support the Company in the future.

Credit Challenges

Increasing exposure to commercial activities. HPIC also participated in commercial activities such as trading and leasing business. The trading business contributes supplementary income for the total revenue of the Company, accounting for 55% of its total revenue in 2022, but recording a low gross profit margin of less than 1%. The Company also participated in the leasing business. The leasing business contributes less to the Company's total revenue and because of the cumulative depreciation of the leasing assets, this business recorded a negative gross profit margin. In addition, with the ongoing construction of the self-operated projects, the Company may increase its commercial exposure.

Increasing debt burden and moderate asset liquidity. HPIC'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 RMB2.7 billion to RMB6.0 billion, and its total capitalization ratio was at a relatively high level of around 48.0% at end-2022. Given its large capital expenditure and slow operating repayment, we expect the Company's debt burden will remain at a relatively high level. HPIC's asset liquidity was moderate as they were mainly inventories with weak liquidity. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Financial channels need to be improved. 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, the Company's bank loan interest rate was around 6%. In addition, HNTI guaranteed some of the Company's bank loans. The Company has a high credit facility. As of 31 December 2022, it held an available credit facility of RMB7.7 billion. However, the Company's reliance on non-standard financing is high, accounting for around 66.7% of its total debt. HPIC plans to tap the offshore debt capital markets to broaden its funding sources.

Rating Outlook

The stable outlook on HPIC'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 Lianshi Town of Nanxun District.

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 decreased in its strategic significance and 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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