

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Huzhou Moganshan High-tech Group Co., Ltd., with stable outlook.**

Hong Kong, 27 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to Huzhou Moganshan High-tech Group Co., Ltd. (“HMHG” or the “Company”) with stable outlook.

The BBB<sub>g</sub> long-term credit rating of HMHG reflects Deqing County Government’s 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 Deqing County Government’s capacity to provide support reflects its good geographic advantage, with good economic development and fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) most important market position in infrastructure construction and industrial park development in the Mogan Mountain of Huzhou High-tech Industry Development Zone (“MHTZ”); (2) good track record of receiving government payments; and (3) diversified financing channels. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) moderate contingent risks resulting from external guarantees.

### **Corporate Profile**

Established in 2018, HMHG is the most important infrastructure construction and state-owned capital operation platform in the MHTZ and primarily undertakes land development and infrastructure construction projects within the MHTZ. The Company has played an important role in furthering the social and economic development of MHTZ. The Company is also engaged in commercial activities including materials trading and industrial park development businesses. On 31 March 2023, the Company’s shareholder was adjusted, it was wholly owned by Huzhou Moganshan State-owned Capital Holding Group Co., Ltd. (“HMSC”), and the MHTZ Management Committee remains as the actual controller, which is a government organ of the Huzhou Municipal People’s Government and share the same management team with the Deqing County Government.

### **Rating Rationale**

#### **Credit Strengths**

**Most important market position in infrastructure construction in the MHTZ.** As the most important infrastructure construction and state-owned capital operation platform in the MHTZ, the Company has undertaken a number of infrastructure construction projects and conducts land development business within Deqing County. The Company’s public policy business is sustainable given the considerable construction projects in the pipeline. However, this business also exerts great pressure on the Company’s capital expenditure.



**Good track record of receiving government payments.** HMHG 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 received asset transfers from the government, increasing the Company's total capital reserve by RMB18.2 billion. During the same period, the Company received RMB1.6 billion in government subsidies to support its operation. In addition, the Company has a large number of infrastructure construction and land development projects, and will receive the project payments from the government agencies. Given its important position in MHTZ, we expect the local government will continue to support the Company in the future.

**Diversified financing channels.** HMHG has relatively good access to various sources of funding, including bank loans, onshore and offshore debt financing. As of 31 December 2022, it had obtained a total bank credit facility of RMB36.1 billion, with an unutilized portion of RMB9.2 billion, indicating sufficient standby liquidity. The Company is also a frequent issuer in the bond market. From 2020 to June 2023, the Company issued various bond products, including CPs, MTNs, corporate bonds, and USD bonds, raising RMB26.3 billion and USD420 million. In addition, the Company's exposure to non-standard financing is manageable, accounting for about 14.2% of total debt as of end-2022.

#### Credit Challenges

**Moderate exposure to commercial activities.** HMHG also participated in commercial activities such as industrial park development and materials trading businesses. We estimate that the Company had moderate commercial exposure with the proportion of commercial business assets being around 15% of its total assets. The Company conducts sales of factories and commercial properties in accordance with the development plans of the local governments, attracting enterprises and investments for the development of MHTZ. The Company started its materials trading business in 2018. And the customers are mainly private enterprises, which increased certain risks to the trading business.

**Increasing debt burden and moderate asset liquidity.** HMHG'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 RMB32.7 billion to RMB50.1 billion, and its total capitalization ratio was at a relatively high level of around 58.1% at end-2022. HMHG's asset liquidity was moderate as they were mainly inventories with weak liquidity. As of 31 December 2022, the inventories amounted to RMB47.8 billion, accounting for 52.8% of total assets, which mainly consisted of construction costs caused by infrastructure construction projects.

**Moderate contingent risks resulting from external guarantees.** HMHG has moderate exposure to contingent liabilities. As of 31 December 2022, The Company's external guarantees amounted to RMB5.5 billion, accounting for 15.3% of its net assets, all of which were provided to local state-owned enterprises. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

## Rating Outlook

The stable outlook on HMHG'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 market position in the infrastructure construction and industrial park development in the MHTZ.

### 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; 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

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