

CCXAP assigns long-term credit rating of A_g- to Zhejiang Changsanhe Holding Group Co., Ltd., with stable outlook.

Hong Kong, 28 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A_g- to Zhejiang Changsanhe Holding Group Co., Ltd., (“ZCHG” or the “Company”) with stable outlook.

The A_g- long-term credit rating of ZCHG reflects (1) Huzhou Municipal Government’s very strong capacity to provide support, and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Huzhou Municipal Government’s capacity to support reflects its good geographic advantage, with ongoing economic growth and outstanding fiscal quality.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) monopoly position in the development of Yangtze River Delta Industrial Cooperation Zone (Huzhou) (“YICZ”); and (2) good track record of receiving ongoing government payments. However, the rating is constrained by the Company’s short operating history, financing and debt management need to be improved as a newly established entity.

Corporate Profile

Reorganized and established in 2022, the Company is authorized to be exclusively responsible for the development, construction, and investment of YICZ, mainly for the planning and development of 86.9 square kilometers of core area in the YICZ.

As of 31 December 2022, the State-owned Assets Supervision and Administration Commission of Huzhou Municipal People’s Government (“Huzhou SASAC”) was the Company’s ultimate controller, directly holding 47.2% of the Company’s shares, and indirectly holding 29.7% of the shares through the two companies, with a total shareholding of 76.9%. Anji County Tianzi Lake Agricultural Comprehensive Development Co., Ltd. held 23.1% of the Company’s share. Huzhou SASAC entrusts the Management Committee of YICZ to manage the Company.

Rating Rationale

Credit Strengths

Monopoly position in the development of YICZ. As the sole development and construction entity in YICZ, the Company is authorized to undertake construction projects including municipal roads, infrastructure, and resettlement housing in the YICZ. In addition to construction projects, the Company is also responsible for public utilities and industrial operations in YICZ. During the 14th Five-Year Plan period, there are sufficient projects and the business sustainability is strong.

Good track record of receiving ongoing government payments. ZCHG has a proven track record of receiving government support in the form of capital injection, asset transfers,

and financial subsidies. The Company received a capital injection from the government at the beginning of the reorganization, its paid-in capital increased from RMB31.5 million in 2021 to RMB2.3 billion at the end of 2022. From 2020 to 2022, the Huzhou Municipal Government transferred assets including minerals, pipe network and real estates, into the Company, increasing the Company's total capital reserve by RMB10.6 billion, which significantly enhanced the Company's capital strength and broadened its business mix. During the same period, the Company received RMB99.8 million in government subsidies to support its operation. Given its important position in YICZ, we expect the local government will continue to support the Company in the future.

Credit Challenges

Moderate asset liquidity. The Company's asset liquidity was moderate as they were mainly inventories with weak liquidity. As of 31 December 2022, the Company's inventories amounted to RMB8.7 billion, accounting for 44.5% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects and lands. In addition, as of 31 December 2022, the Company had pledged assets of RMB310 million for loans, accounting for 1.8% of net assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Limited access to funding. As a newly established entity, the Company has limited access to funding and it relies heavily on bank credit facilities and support from the local government. The Company maintains a good relationship with several banks. As of 31 December 2022, the Company has obtained a total of RMB7.0 billion in bank credit facilities, with an available credit of RMB4.3 billion. Meanwhile, The Company has not yet tap into the bond market, all of the Company's debt was provided by bank loans, with an average loan interest rate of 4.6%. The Company plans to issue onshore and offshore bonds to broaden its financing channels in the future.

Rating Outlook

The stable outlook on ZCHG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its monopoly position in the development of YICZ.

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 access to funding or assets 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

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