

CCXAP assigns first-time long-term credit rating of BBB_g- to Hunan Miluo River Holding Group Co., Ltd., with stable outlook

Hong Kong, 22 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Hunan Miluo River Holding Group Co., Ltd., (“MRHG” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of Hunan Miluo River Holding Group Co., Ltd (“MRHG” or the “Company”) reflects Miluo City Government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Miluo City’s economic importance in Yueyang City with ongoing economic growth, but constrained by its relatively weak fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in public-related services of Miluo City; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing investment on self-operated commercial projects, exerting high capital expenditure pressure; and (2) fast debt growth and modest asset liquidity.

Corporate Profile

Founded in November 2017, MRHG is the most important local infrastructure investment and financing companies (“LIIFC”) in Miluo City. The Company is mainly engaged in the local infrastructure construction, land consolidation, and state-owned asset management in Miluo City. It has also participated in other commercial activities such as engineering construction, sandstone mining and sale, logistics, building materials trading, and modern service business. As of 31 December 2022, the Company was wholly owned and ultimately controlled by Miluo State-owned Assets Service Center.

Rating Rationale

Credit Strengths

Strong position in public-related services of Miluo City. The Company is the most important LIIFC with the largest assets size in Miluo City, mainly responsible for local infrastructure construction, land consolidation, and state-owned assets management. The Company has undertaken about 80% of infrastructure projects in Miluo City, making great contribution to local economic and social development. Given its strong position to the urban construction of Miluo City, we believe that the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government support. MRHG has regularly received support from the local government in the form of operating subsidies, project payments, capital injection, and asset transfers. The Company has received ongoing asset transfer, such as pipeline assets, significantly enhancing its capital strength. From 2020 to 2022, the local government had

transferred assets of RMB4.1 billion into the Company. Besides, the local government has regularly made project payments to the Company. Given its important role in undertaking infrastructure construction projects and providing public services in Miluo City, we believe that the local government will continue to provide strong support to the Company.

Credit Challenges

Increasing investment on self-operated commercial projects, exerting high capital expenditure pressure. In addition to public activities, MRHG is also engaged in diversified commercial businesses, mainly including engineering construction, sandstone mining and sale, logistics, building materials trading, charging pile, parking lots, and cemetery businesses. As most of the commercial businesses have franchise advantage, we believe that the commercial business risk is manageable. However, given that the Company currently focuses on the construction of self-operated projects, we expect its exposure to commercial businesses will gradually increase.

Fast debt growth and modest asset liquidity. MRHG has a fast debt growth over the past three years. The Company's total debt had increased from RMB7.8 billion at end-2020 to RMB11.8 billion at end-2022. The increase in debt is mainly attributable to the ongoing financing for the construction projects. MRHG has modest asset liquidity, which may undermine its financing flexibility. The Company's total assets mainly consist of inventories, account receivables, and advance payments, accounting for 66% of its total asset at end-2022.

Rating Outlook

The stable outlook on MRHG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strong position in infrastructure construction of Miluo City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management or decrease in exposure to external guarantee.

What could downgrade the rating? The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or material increase in exposure to external guarantee.

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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