

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

Hong Kong, 1 November, 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Huaiyuan Investment Group Co., Ltd. (“HYIG” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of HYIG reflects (1) Huaiyuan County Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Huaiyuan County Government’s capacity to provide support reflects Huaiyuan County’s gross regional production (“GRP”) ranking first among counties or districts in Bengbu City but constrained by its relatively weak fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong policy role in the development of Huaiyuan County; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) moderate debt management and moderate asset liquidity.

### **Corporate Profile**

Founded in 2018, HYIG is the largest local infrastructure investment and financing company (“LIIFCs”) in Huaiyuan County. The Company focuses on three sectors which are urban construction, equity investment and financial services after integrating several local LIIFCs and state-owned enterprises (“SOE”). The Company is primarily engaging in diversified businesses, such as infrastructure construction, affordable housing and shantytown construction, industrial park construction, land consolidation, bridge toll operations, commercial property sales, and material sales. As of 30 June 2023, State-owned Assets Supervision and Administration Commission of Huaiyuan County People’s Government was the ultimate controller of HYIG, directly holding 100% shares of the Company.

### **Rating Rationale**

#### **Credit Strengths**

**Strong policy role in the development of Huaiyuan County.** HYIG is the largest LIIFC in Huaiyuan County in terms of total assets and plays an essential role in infrastructure construction. It undertakes the functions of construction of affordable housing, shantytowns, industrial parks and roads in Huaiyuan County. The Company plays an important role in the economic development of Huaiyuan County by its contribution to the local infrastructures and capital attraction. The Company has sufficient project reserves that support good stability and sustainability of the infrastructure construction business.

**Good track record of receiving government support.** The Company has a solid track record of receiving support from the local government including capital injections, asset injections and

operating subsidiaries. Given the Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

### **Credit Challenges**

**Medium exposure to commercial activities.** HYIG is involved in a diversified range of commercial activities that contribute part of its revenue, including industrial park constructions, commercial property sales, and material sales. These commercial activities may also entail higher operational and business risks than public policy activities. Based on our estimates, the Company had medium exposure to commercial activities, which accounted for less than 30% of its total assets.

**Moderate debt management and moderate asset liquidity.** Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. HYIG's asset liquidity is considered as moderate and some assets are restricted, which decreases the Company's financial flexibility. The Company also has certain pressure on capital expenditure considering its large investment needs. We expected the Company to rely on external financing to meet its capital expenditure plan and the debt burden will keep increasing in the next 12 to 18 months.

### **Rating Outlook**

The stable outlook on HYIG's rating reflects our expectation that Huaiyuan County Government's capacity to provide support will remain stable, and that the Company will maintain its important position in the development of Huaiyuan County over the next 12 to 18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) Huaiyuan County Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management and reduced exposure to commercial activities.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) Huaiyuan County 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 deteriorated debt management.

### **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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