Credit Opinion

20 June 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g+
Outlook	Stable

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Huzhou Moganshan High-tech Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Huzhou Moganshan High-tech Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Huzhou Moganshan High-tech Group Co., Ltd. ("HMHG" or the "Company") reflects Deqing County Government's strong capacity to provide support, and 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 strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) leading position with expertise in infrastructure construction and industrial park development within the Mogan Mountain of Huzhou High-tech Industry Development Zone ("MHTZ")；(2) high sustainability of public policy projects backed by sufficient land reserves; and (3) stable track record of receiving government payments.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities with large capital expenditure; (2) relatively high debt leverage driven by construction pipelines; and (3) weak asset liquidity.

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.

Rating Drivers

- Leading position with expertise in infrastructure construction and industrial park development within the MHTZ
- High sustainability of public policy projects backed by sufficient land reserves
- Moderate exposure to commercial activities with large capital expenditure
- Stable track record of receiving government payments
- Relatively high debt leverage driven by construction pipelines
- Weak asset liquidity
- Good access to funding from banks and bond markets

Rating Sensitivities

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 or increasing exposure to commercial activities.

Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Asset (RMB billion)	90.5	102.2	107.5	112.0
Total Equity (RMB billion)	36.1	39.7	40.2	41.2
Total Revenue (RMB billion)	2.3	2.7	2.4	0.5
Total Debt/Total Capital (%)	58.1	59.3	59.4	60.3

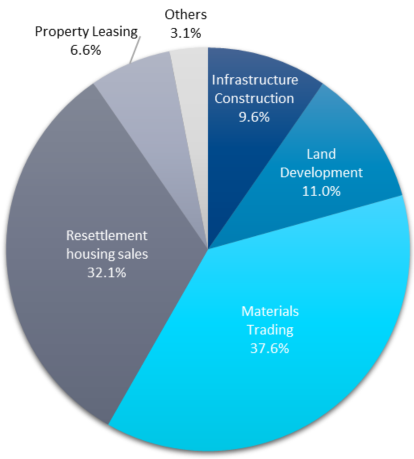
All ratios and figures are calculated using CCXAP’s adjustments.

Source: Company data, CCXAP research

Corporate Profile

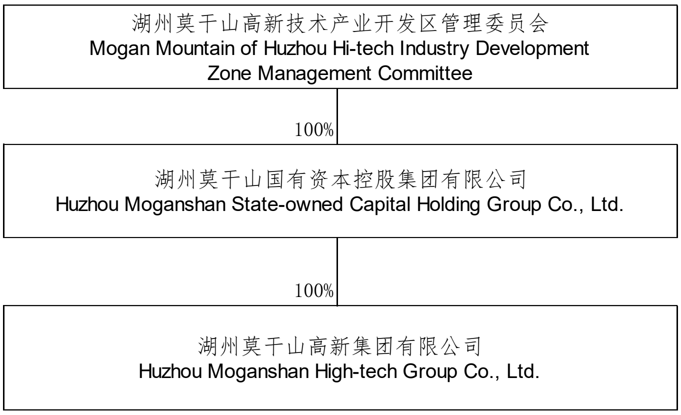
Established in 2018, HMHG is the important infrastructure construction and state-owned capital operation platform in the MHTZ and primarily undertakes land development and infrastructure construction projects. The Company has played an important role in furthering the social and economic development of MHTZ. It is also engaged in commercial activities including materials trading and industrial park development businesses. As of 31 March 2025, HMHG was wholly owned by Huzhou Moganshan State-owned Capital Holding Group Co., Ltd. (“HMSC”), and the MHTZ Management Committee remains the ultimate shareholder, which is a government organ of the Huzhou Municipal People’s Government and shares the same administrative structure with the Deqing County Government.

Exhibit 1. Revenue structure in 2024



Source: Company information, CCXAP research

Exhibit 2. Shareholding Chart as of 31 March 2025



Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that Deqing County Government has a strong capacity to provide support as reflected by its good geographic advantage, with good economic development and fiscal strength.

Zhejiang Province is one of the most economically developed provinces in China, and its comprehensive economic strength and private economy leads in China. In 2024, the gross regional product ("GRP") of Zhejiang Province was RMB9.0 trillion, ranking 4th among all provinces in China, with a year-on-year ("YoY") increase of 5.5%. In 2024, its general budgetary revenue reached RMB0.9 trillion, ranking 3rd among all provinces in China.

Located in the northern part of Zhejiang Province, Huzhou City is the node city connecting the north and south areas of the Yangtze River Delta region. Huzhou City has four leading industries including information technology, high-end equipment, health and tourism. It has achieved a significant increase in GRP over the past three years. In 2024, Huzhou City recorded a GRP of RMB421.3 billion, increasing by 5.8% YoY. Due to the economic recovery and industry growth, Huzhou Municipal Government's general budgetary revenue increased from RMB38.7 billion in 2022 to RMB41.1 billion in 2024. It also has good fiscal stability, with tax income accounting for around 80% of general budgetary revenue for the past three years. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 70.0% in 2024. However, Huzhou Municipal Government's debt burden was relatively heavy with an outstanding direct government debt of RMB161.1 billion at end-2024, accounting for 38.2% of its GRP and 142.8% of its total fiscal revenue.

Exhibit 3. Key Economic and Fiscal Indicators of Huzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	385.0	401.5	421.3
GRP Growth (%)	3.3	5.8	5.8
General Budgetary Revenue (RMB billion)	38.7	41.1	41.1
General Budgetary Expenditure (RMB billion)	60.2	60.7	59.1
Local Government Debt (RMB billion)	118.9	136.4	161.1

Source: Statistics Bureau of Huzhou City, CCXAP research

Located in the south part of Huzhou City, Deqing County is an important node county in the Hangzhou metropolitan area. According to research results of China's small and medium-sized cities' high-quality development index in 2024, it ranked 35th by comprehensive strength, 28th by green development, 32nd by science and technology innovation, 26th by new urbanization quality among China's top 100 counties. Deqing County has a balanced development in its primary, secondary and tertiary industries. It has generated a large number of modern industries, including advanced equipment manufacturing, biopharmaceutical, geographic information, general aviation, artificial intelligence and big data. Benefiting from the superior natural geographical environment, Deqing County has a national tourist resort Moganshan International Tourism Resort. In 2024, Deqing County recorded a GRP of RMB72.3 billion, increasing by 5.8% YoY, ranking third among 5 districts and counties in Huzhou City. Its general budgetary revenue also increased from RMB8.0 billion in 2022 to RMB8.5 billion in 2024, ranking second in Huzhou City, with tax incomes accounting for nearly 72% of its general budgetary revenue. Deqing County has a good fiscal balance and manageable debt profile, with a general budgetary revenue to general budgetary expenditure ratio of 82.3% in 2024. It has outstanding government debt of RMB22.3 billion at end-2024, representing 20.9% of GRP and 111.5% of total fiscal revenue.

Exhibit 4. Key Economic and Fiscal Indicators of Deqing County

	2022FY	2023FY	2024FY
GRP (RMB billion)	65.8	68.1	72.3
GRP Growth (%)	3.8	5.3	5.8
General Budgetary Revenue (RMB billion)	8.0	8.5	8.5
General Budgetary Expenditure (RMB billion)	10.2	10.8	10.3
Local Government Debt (RMB billion)	14.7	19.6	22.3

Source: Statistics Bureau of Deqing County, CCXAP research

Formerly known as Deqing Economic Development Zone, MHTZ has been approved as a national-level high-tech industry development zone in Deqing County by the State Council in September 2015. According to the list of China's top 100 high-tech zones released by Shangqi Research Institute, MHTZ ranked 36th by specialization, refinement, distinctiveness, and novelty among 178 national high-tech zones in 2023. MHTZ focuses on the cultivation of high-tech enterprises and new industries, and aims to build a leading innovative development zone in the country. The leading industries of MHTZ include geographic information, general aviation, artificial intelligence, and high-end equipment manufacturing. With a friendly environment for technology and innovation businesses, MHTZ has attracted a large number of enterprises to set up facilities, branches or offices, gathering 389 enterprises above designated size, 6 main board listed companies, and 293 high-tech enterprises at the end of 2023. In 2023, MHTZ realized fiscal revenue of RMB4.9 billion with a YoY growth rate of 15.9%. In the first quarter of 2024, MHTZ completed 12 key construction projects and initiated 13 construction projects, with a total investment of RMB15.6 billion, covering high-end equipment manufacturing, digital economy, and biomedicine industries.

Deqing County and MHTZ have achieved rapid economic and societal growth in recent years, which has provided opportunities and needs for the development of infrastructure and supporting facilities in MHTZ, in turn driving the growth of HMHG's business.

Government Willingness to Provide Support

Leading position with expertise in infrastructure construction and industrial park development within the MHTZ

As the primary infrastructure construction and industrial park development operation platform in the MHTZ, the Company has undertaken a number of infrastructure construction and industrial park development projects within MHTZ, making great contributions to the local social and economic development, benefiting investment attraction and improving related industrial chains in the MHTZ. Considering its strategic importance in undertaking public policy projects in the region, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of public policy projects backed by sufficient land reserves

We believe the Company's large pipeline of public policy projects assigned by the local government has demonstrated its leading position in the development of MHTZ, ensuring its sustainability of public policy businesses but exerting certain capital expenditure pressure.

The Company adopts an agency construction model to conduct infrastructure construction projects. The Company bears manageable capital expenditure pressure as project payment mainly relies on funds from special government bonds. As of 31 March 2025, the Company had 48 infrastructure construction projects under construction, with a total planned investment of around RMB8.6 billion and an outstanding amount of around RMB4.3 billion. Besides, the Company also had 8 projects under planning with a total planned investment of RMB1.7 billion. Given the sufficient infrastructure projects in the pipeline, we believe the Company's infrastructure construction business has good sustainability.

HMHG is entrusted by the local government to undertake land development projects in MHTZ with regional monopoly advantages. The Company's land development projects are also conducted under an agency construction model. The Company is mainly responsible for land leveling and construction of supporting facilities and other necessary services after the expropriation of the land, and receives the development costs incurred plus a certain markup after the completion of land development projects. At end-2024, the Company had a total area of 199,365 mu land projects under construction, with a total planned investment of RMB44.4 billion and an outstanding amount of RMB14.1 billion, of which the Company had confirmed revenue of RMB2.6 billion and received repayments of RMB2.4 billion. Meanwhile, the Company's developed land in reserve was about 15,442 mu. Furthermore, the Company's revenue from land consolidation business recovered in 2024, as the Company achieved RMB267.5 million in land consolidation revenue with a 17.8% YoY growth. Overall, the Company owns a large amount of land reserves ensuring the sustainability of this business, but there is uncertainty subject to the local government's planning and the regional land market conditions.

In addition, the Company is involved in the resettlement housing business through outsourcing and self-operated models. The Company is entrusted by government agencies to undertake resettlement housing construction projects and achieves fund balancing through sales after the projects are completed. The resettlement housing will be first sold to qualified applicants at guidance prices set by the government and the remaining housing and supporting shops will be sold at market prices. As of 31 December 2024, there were 6 completed resettlement housing projects with a total invested amount of around RMB6.0 billion and a collected sales amount of RMB1.5 billion, indicating moderate destocking pace. Moreover, the Company had 4 resettlement housing projects under construction with a total planned investment of RMB4.3 billion and an outstanding amount of RMB1.7 billion. In 2024, the Company's revenue from property sales increased by 71.2% compared to 2023, primarily driven by increased sales in resettlement housing projects. However, given the large initial investment amount on these projects, coupled with relatively long construction and payback periods, we believe the Company will face large capital expenditure pressure.

Moderate exposure to commercial activities with large capital expenditure

HMHG has 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 25-30% of its total assets. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks.

The Company participates in the industrial park development business in MHTZ under the self-operated model. The Company conducts sales and leasing of factories and commercial properties in accordance with the development plans of the local governments, attracting enterprises and investments for the development of MHTZ. As of 31 March 2025, the Company had 22 completed industrial park development projects, with a total invested amount of around RMB8.1 billion and an average occupancy rate of around 70%. Meanwhile, the Company had 21 projects under construction with a total planned investment of RMB13.7 billion and an uninvested amount of RMB4.5 billion and 3 projects under planning with an estimated investment of RMB3.3 billion, exerting high capital expenditure pressure. Moreover, the income of the Company's industrial park development business mainly comes from leasing and sales of self-operated projects. At end-2024, the Company had achieved sales of industrial parks of RMB316.0 million. From 2023 to 2024, this business generated leasing income of RMB136.0 million and RMB159.2 million respectively. Considering the relatively large scale of capital expenditure and the long progress of project construction, there are uncertainties regarding the subsequent fund balancing of these projects as it is highly subject to local industrial development and investment promotion policies.

The Company is also engaged in materials trading business based on a demand-driven business model, with trading products mainly consisting of steel, air conditioner and elevator. This business contributes a large portion of income for the total revenue of the Company, accounting for 37.6% of its total revenue in 2024, but recording a low gross profit margin of around 1%. In addition, the business is exposed to a high concentration risk. As of 31 March 2025, its top 5 suppliers and customers accounted for around 93.2% and 89.4% of its purchasing and sales amount, respectively.

Stable 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 has received asset transfers from the government including greening projects, pipe network and advertising space rights, increasing the Company's total capital reserve by RMB18.2 billion. In 2023, the local government transferred sand mining rights of RMB4.8 billion to the Company without compensation, enhancing the capital strength of the Company. In 2024, the Company received assets of property with estimated value of around RMB190 million. From 2023 to 2025Q1, the Company also received stable government subsidies of RMB1.3 billion, to support its operation. Given its important position in MHTZ, we expect the local government will continue to support the Company in the future.

Relatively high debt leverage driven by construction pipelines

Due to the continuous investment in construction projects, HMHG's total debt continued to increase as its total debt increased from RMB57.8 billion at the end of 2023 to RMB62.6 billion as of 31 March 2025, and its total capitalization ratio remained at a relatively high level of around 60.3%. Also, the Company is exposed to certain short-term debt repayment pressure as the short-term debt accounted for about 27.7% of total debt and the cash to short-term debt ratio was 0.3x. Given its large capital expenditure needs from policy projects and industrial park projects construction, as well as relatively long construction and payback periods of self-operated projects, we expect the Company's debt burden will remain at a relatively high level for the next 12-18 months.

HMHG bears manageable exposure to contingent liabilities. As of 31 March 2025, The Company's external guarantees amounted to RMB2.3 billion, accounting for 5.5% of its net assets, all of which were provided to local state-owned enterprises. We believe that the contingent risk of the external guarantees could be partially relieved by the local government's support to these local SOEs in times of need.

Weak asset liquidity

HMHG's asset liquidity is weak, which may undermine its financial flexibility. As of 31 March 2025, its assets were primarily composed of inventories and receivables, both with relatively low liquidity, which accounted for 62.1% of total assets. Inventories are mainly development costs for infrastructure construction projects, while receivables are mainly unreceived payments from the agencies of the government or other state-owned companies. Nonetheless, 12.3% of the Company's total assets were investment properties mainly for leasing and intangible assets, consisting of mining rights and parking lot charging rights, which accounted for 11.7% of HMHG's total assets in the same period, which can generate supplementary income and cash flow to the Company.

Good access to funding from banks and bond markets

HMHG has multiple access to various sources of funding, including bank loans, onshore and offshore debt financing. As of 31 March 2025, around 57.3% of the Company's debt financing was provided by domestic banks with total bank credit facilities of RMB45.1 billion and an unutilized portion of RMB7.8 billion, indicating sufficient standby liquidity. The Company is also an active issuer in the onshore and offshore bond market, providing about 32.2% of the Company's total debt. As of 31 May 2025, the Company issued various bond products in the onshore market, including CPs, MTNs, corporate bonds, with an outstanding amount of RMB15.0 billion, and USD bonds in the offshore market with an outstanding amount of USD472.0 million. The large amount of outstanding bonds brings certain refinancing pressure to the Company as it is susceptible to changes in the capital market. In addition, the Company's exposure to non-standard financing is low, accounting for around 10.5% of total debt as of 31 March 2025. We consider the Company's diversified funding channels can largely fulfill its future refinancing needs and capital expenditure.

ESG Considerations

HMHG assumes environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, HMHG has played a crucial role in the social welfare of MHTZ by involving the construction of environmental improvement, resettlement housing and road reconstruction projects in the MHTZ of Deqing County.

In terms of corporate governance, HMHG's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

Appendix

Exhibit 5. Peer Comparison as of 31 December 2024

	Huzhou Moganshan State-owned Capital Holding Group Co., Ltd.	**Huzhou Moganshan High-tech Group Co., Ltd.**
Long-Term Credit Rating	A_g-	BBB_g+
Shareholder	MHTZ Management Committee (100%)	Huzhou Moganshan State-owned Capital Holding Group Co., Ltd. (100%)
Positioning	The largest and most important infrastructure construction and state-owned capital investment platform in the MHTZ	Important infrastructure construction and industrial park development entity within the MHTZ
Total Asset (RMB billion)	121.0	107.5
Total Equity (RMB billion)	45.4	40.2
Total Revenue (RMB billion)	5.3	2.4
Total Debt/Total Capital (%)	59.9	59.4

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

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