

Credit Opinion

13 June 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Xinchang Urban Construction Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Xinchang Urban Construction Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Xinchang Urban Construction Investment Group Co., Ltd. (“XUCI” or the “Company”) reflects (1) Xinchang County Government’s 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 Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important strategic role in the infrastructure construction and utility services in Xinchang County; and (2) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

The stable outlook on XUCI’s rating reflects our expectation that Xinchang County Government’s capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

Rating Drivers

- Important strategic role in the infrastructure construction and utility services in Xinchang County
- Medium exposure to commercial activities
- Good track record of receiving government payments
- Good access to funding
- High debt leverage and moderate asset quality

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County 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 material decrease in exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang County 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 importance, material decrease in government payments, or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	30.0	41.8	53.8
Total Equity (RMB billion)	11.9	18.1	21.8
Total Revenue (RMB billion)	1.8	2.4	2.5
Total Debt/Total Capital (%)	58.3	54.4	57.6

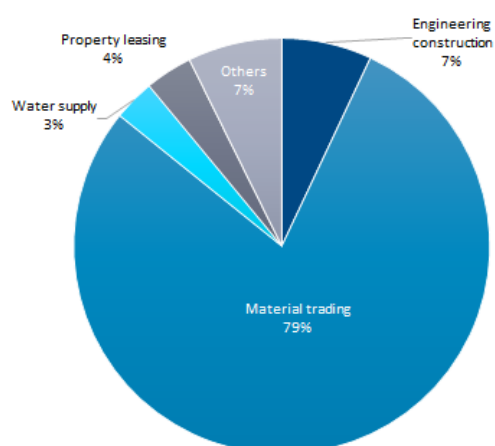
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Established in 2016, XUCI is one of the key subsidiaries of Zhejiang Xinchang Investment Development Co., Ltd. ("ZXID"). It plays an important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment. Besides, the Company also engages in some commercial activities such as engineering construction, material trading, car parking services and property leasing. As of 31 December 2022, the Company was wholly owned by ZXID and ultimate controlled by the State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County ("Xinchang SASAC").

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 31 December 2022

State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County 新昌县人民政府国有资产监督管理委员会	100.00%
Zhejiang Xinchang Investment Development Co., Ltd. 浙江省新昌县投资发展集团有限公司	100.00%
Xinchang Urban Construction Investment Group Co., Ltd. 新昌县城市建设投资集团有限公司	

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Xinchang County Government has a strong capacity to provide support given its ongoing economic growth, with relatively good investment potential and fiscal stability.

Shaoxing City was the fourth largest prefecture-level city in terms of gross regional product ("GRP") as of end-2022, in Zhejiang Province with abundant tourism resources and well-developed industries. It recorded a GRP of RMB735.1 billion with a year-over-year ("YoY") growth rate of 4.4% which higher than provincial level. Shaoxing City has already developed textile, machinery, and food industry as its pillar industries. Currently, new industries such as modern equipment, modern medicine, electronic information, and new materials also grow rapidly. Affected by the tax refund policy, Shaoxing Municipal Government's general budgetary revenue decreased from RMB60.4 billion in 2021 to RMB54.9 billion in 2022. The fiscal self-sufficiency was relatively good with an average fiscal balance ratio (general budgetary revenue/general budget expenditure) of 77.7% over the past three years. Shaoxing Municipal Government's outstanding debt increased to RMB168.0 billion, accounting for 22.9% of GDP.

Exhibit 3. Key economic and fiscal indicators of Shaoxing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	600.1	679.5	735.1
GRP Growth (%)	3.3	8.7	4.4
General Budgetary Revenue (RMB billion)	54.4	60.4	54.0
General Budgetary Expenditure (RMB billion)	66.7	71.5	80.5
Local Government Debt (RMB billion)	124.8	143.7	168.0

Source: Statistic Bureau of Shaoxing City, CCXAP research

Xinchang County is located in the southern part of Shaoxing City, with geographical area of 1,213 square kilometers and population of about 429 thousand. Xinchang County has a relatively good investment potential, with 17 listed companies as of end-2022. According to the High-quality Development Index of China's Small and Medium-sized Cities in 2022, it ranked 64th by investment potential among top 100 counties/county-level cities in China. Healthcare and high-end manufacturing are the key pillar industries of Xinchang County, such as Chinese medicine, axle manufacturing, auto parts manufacturing and textile industries. With ongoing development of its pillar industries, Xinchang County has continued to grow and develop in recent years. From 2020 to 2022, the GRP of Xinchang County increased from RMB46.1 billion to RMB56.5 billion. In 2022, affected by the tax refund policy, the general budgetary revenue of Xinchang County decreased to RMB4.2 billion, of which tax revenue accounting for 73.2%, indicating relatively good fiscal stability. However, Xinchang County has a moderate fiscal self-sufficiency, with a fiscal balance ratio of 58.6% in 2022. In 2022, Xinchang County Government recorded an outstanding debt of RMB17.3 billion, accounting for 30.7% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Xinchang County

	2020FY	2021FY	2022FY
GRP (RMB billion)	46.1	51.7	56.4
GRP Growth (%)	2.7	8.2	5.0
General Budgetary Revenue (RMB billion)	4.4	4.5	4.2
General Budgetary Expenditure (RMB billion)	6.5	7.0	7.1
Local Government Debt (RMB billion)	10.1	13.6	17.3

Source: Statistic Bureau of Xinchang County, CCXAP research

Government's Willingness to Provide Support**Important strategic role in the infrastructure construction and utility services in Xinchang County**

ZXID is the largest LIIFC in terms of total assets in Xinchang County, which plays an essential and active role in implementing the Xinchang County Government's major strategic initiatives for urban planning, municipal construction and utility and facility operation. XUCI is the most important subsidiary of ZXID, responsible for various public-related activities such as infrastructure construction, land consolidation, water supply and sewage treatment. It has completed various significant infrastructure projects in Xinchang County. Given its important strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Entrusted by the local government, XUCI has undertaken a large amount of infrastructure construction projects, such as roads, schools, resettlement housings, and pipe networks, in Old Town District of Xinchang County. It mainly conducts infrastructure projects by signing agency construction agreements with the entrusting parties, which would repurchase the constructions upon project completion. The repurchase payment is based on the

construction cost plus an agreed return. As of 31 December 2022, the Company had 12 major infrastructure construction projects under construction, with a total estimated investment of RMB6.6 billion and an uninvested amount of RMB1.1 billion. The large number of projects in the pipeline can ensure the sustainability of the infrastructure construction business, but also exert high capital expenditure pressure on the Company.

XUCI is an important primary land developer in Old Town District of Xinchang County, including land leveling, resettlement and construction of urban facilities. The Company will first bear the cost of land development and the consolidated land will then be sold via the public market. It engages in land consolidation projects pursuant to the government's annual development plan. As of 31 December 2022, the Company had saleable land of about 200 thousand square meters. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty to its land transfer income.

XUCI is the sole water supplier and sewage treatment provider in Xinchang County, indicating strong regional position. As of 31 December 2022, the Company had 3 water supply plants with a daily water supply capacity of 140,000 tons and 1 sewage treatment plant with a daily sewage treatment capacity of 144,000 tons. The Company is also engaged in hydroelectric generation business, but the revenue from this business is small and susceptible to the local rainfall. Given the public nature of public utility services, the Company continues to suffer losses from the utilities business, and highly relies on government subsidies to cover the losses.

Medium exposure to commercial activities

In addition to public activities, XUCI is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider XUCI's commercial business exposure to be medium, as its market-driven businesses account for around 25% of its total assets.

XUCI's material trading business is demand-driven and mainly involves sales of steel, coal, and electrolytic copper to trading companies or construction companies. However, the upstream of material trading business is subject to certain concentration risks. As of 31 December 2022, the top 5 suppliers accounted for about 85% of the procurement. In addition, the profit of the business is low, with gross profit margin of around 1% in 2022.

The Company are constructing a large amount self-operating projects with self-raised fund, mainly including factories and office buildings. After these projects are completed, the Company will receive income through property leasing or sales. As of 31 December 2022, the Company had 10 major self-operating projects under construction, with invested amount of RMB0.7 billion.

In addition, XUCI also engages in state-owned property leasing business, such as offices, schools, hospitals, and commercial properties. The leased properties have provided stable rental income to the Company, which recorded rental income of RMB93.4 million in 2022. Besides, the Company also participates in parking lots management, sales of oil products, and food processing businesses. However, their income scale is relatively small, making little contribution to the Company's revenue and profit.

Good track record of receiving government payments

XUCI has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and cash injection. From 2020 to 2022, the local government injected capital of about RMB13.3 billion to the Company, including cash, investment properties, parking lot franchise, reservoir, and equity interests of other state-owned enterprises in Xinchang County, significantly enhancing its capital strength and broadening its business mix. The Company regularly receives a large amount of operational and interest subsidies from the local government to support its business

operation. From 2020 to 2022, the local government has provided total subsidies of RMB2.1 billion into the Company. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

Exhibit 5. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Operational Subsidies	342	278	522
Interest Subsidies	184	279	523
Government Repayments	90	147	73
Asset Transfers	3,750	5,449	2,390
Cash Injections	293	800	590
Total	4,659	6,953	4,098

Source: CCXAP research

High debt leverage and moderate asset quality

With ongoing financing for its construction projects in recent years, XUCI has demonstrated a rapid debt growth and high debt leverage over the past few years. The Company's total debt increased from RMB16.6 billion at end-2020 to RMB29.6 billion as of 31 December 2022, with total capitalization of 57.6%. Nevertheless, the Company's debt structure has been improved. As of 31 December 2022, the Company's short-term debt accounted for 18.7% of its total debt (2020: 35.4%). We expect that, given its large future capital needs, the Company will maintain a relatively high debt leverage in the next 12 to 18 months.

XUCI has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2022, the Company's total asset mainly consists of inventories and non-current assets, which accounted for 84.4% of its total asset. The inventories are mainly investment costs for infrastructure construction and land development projects, while the non-current assets are mainly fixed assets, investment properties, and intangible assets, which are considered low liquidity. Nevertheless, some of the non-current assets, such as rental properties, parking lot franchise, and sandstone mining rights, can generate cash flow for the Company.

Good access to funding

XUCI has good access to funding as reflected by its good banking relationships and access to debt capital markets, with bank loans accounting for about 63% and bonds accounting for about 26% of total debt at end-2022. The Company maintains good relationships with large commercial banks. As of 31 December 2022, it held total credit facilities of RMB22.3 billion, with unutilized amount of RMB9.8 billion. The Company has also issued various types of bond products, including PPNs and private corporate bonds. The Company have raised about RMB7.4 billion since 2020. Additionally, non-standard financing accounted for around 11% of total debt.

Furthermore, the Company has manageable contingent liability risks as all its external guarantees are provided to local state-owned enterprises with relatively low credit risks, accounting for 15.6% of net assets at end-2022.

ESG Considerations

XUCI bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Xinchang County. Demographic changes, public awareness, and social priorities shape government's target for XUCI, or affect the government's propensity to support the Company.

XUCI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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 6. Peer Comparison

	Xinchang Urban Construction Investment Group Co., Ltd.	Zhejiang Xinchang Investment Development Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g
Shareholder	Zhejiang Xinchang Investment Development Co., Ltd.	State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County
Positioning	The most important subsidiary of ZXID, responsible for Old Town District of Xinchang County	The largest infrastructure investment and financing platform in the Xinchang County
Total Asset (RMB billion)	53.8	145.2
Total Equity (RMB billion)	21.8	51.3
Total Revenue (RMB billion)	2.5	5.1
Total Debt/Total Capital (%)	57.6	63.1

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