

Credit Opinion

28 June 2023

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

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Zhejiang Changsanhe Holding Group Co., Ltd.

Initial credit rating report

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

Summary

The A_g- long-term credit rating of Zhejiang Changsanhe Holding Group Co., Ltd. (“ZCHG” or the “Company”) 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.

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.

Rating Drivers

- Monopoly position in the development of YICZ
- Good track record of receiving ongoing government payments
- Low but increasing exposure to commercial activities
- Low debt leverage and moderate asset liquidity
- Limited access to funding

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 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.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	3.8	14.5	19.6
Total Equity (RMB billion)	3.8	14.4	16.8
Total Revenue (RMB billion)	0.2	0.6	0.7
Total Debt/Total Capital (%)	0.3	0.1	11.7

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

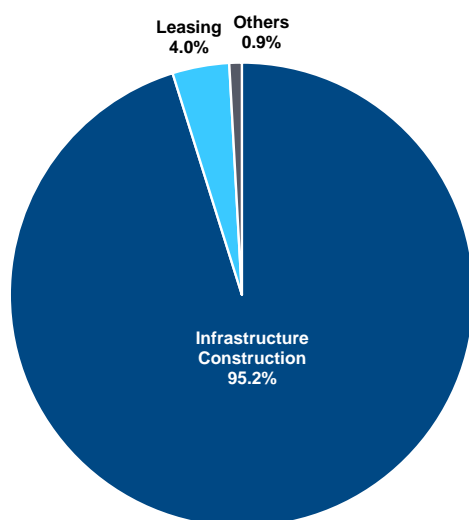
Source: CCXAP research

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.

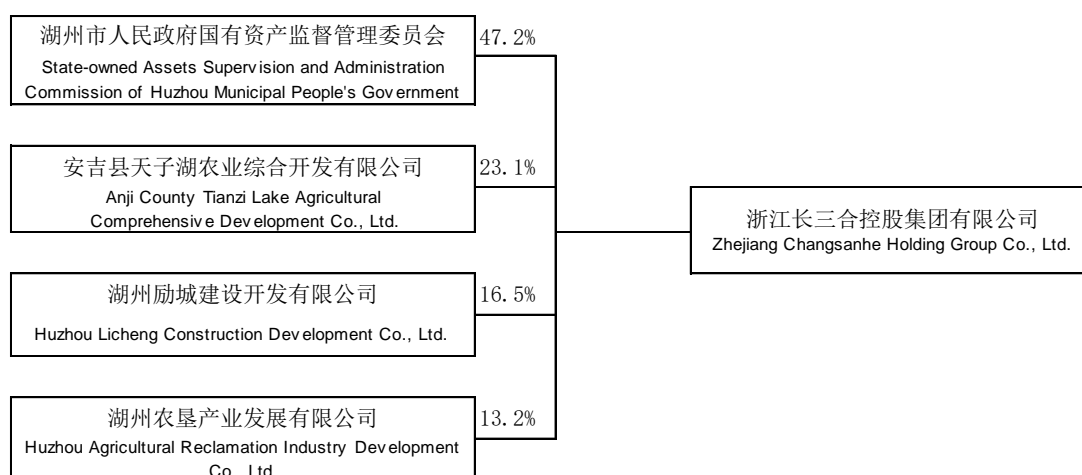
As of 31 December 2022, the State-owned Assets Supervision and Administration Commission of Huzhou Municipal People's Government ("Huzhou SASAC") was the Company's ultimate controller, directly holding 47.2% of the Company's shares, and indirectly holding 29.7% of the shares through the two companies, 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.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding and organization chart as of 31 December 2022



Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Support

We believe that Huzhou Municipal Government has a very strong capacity to provide support as reflected by its good geographic advantage and outstanding fiscal quality. However, the capacity to support is constrained by its relatively weak debt profile.

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. In 2022, Huzhou City recorded a gross regional product ("GRP") of RMB385.0 billion, increasing by 3.3% year-over-year ("YoY"). Due to the COVID-19 pandemic and tax refund factor, Huzhou Municipal Government's general budgetary revenue decreased from RMB41.4 billion in 2021

to RMB38.7 billion in 2022. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 64.3% in 2022. However, Huzhou Municipal Government's debt burden was relatively large with an outstanding direct government debt of RMB118.9 billion at end-2022, accounting for 30.9% of its GRP and 85.7% of its total fiscal revenue.

Exhibit 3. Key Economic and Fiscal Indicators of Huzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	320.1	364.5	385.0
GRP Growth (%)	3.3	9.5	3.3
General Budgetary Revenue (RMB billion)	33.7	41.4	38.7
General Budgetary Expenditure (RMB billion)	48.4	52.4	60.2
Local Government Debt (RMB billion)	83.7	102.3	118.9

Source: Statistics Bureau of Huzhou City, CCXAP research

Established in January 2022, YICZ is located at the intersection of the Hangzhou-Nanjing Economic Belt and the G60 Science and Technology Innovation Corridor. The core area of YICZ includes Si'an Town, Changxing County and part of Tianzihu Town, Anji County, with a planned area of 86.9 square kilometers. The start-up area of YICZ is located between Si'an Town and Tianzihu Town, with a total area of 24.3 square kilometers. It focuses on the development of strategic emerging industries such as high-end equipment and new materials. The Company is the sole development and construction entity in the YICZ. At the early stage of its establishment, YICZ has great development potential and needs for the development of infrastructure and supporting facilities, which in turn provides great opportunities for business growth for the Company.

Government Willingness to Support

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.

The Company adopts agency model and repurchase model to conduct infrastructure construction projects. For the repurchase model, the Company signed the entrusted construction agreement with the related party to undertake the construction projects, and charged 115% of the actual investment amount for project payment. The Company contracts projects in repurchase model with self-raised funds. Under the agency construction model, the Company's subsidiaries signed the agent construction agreement with related parties. There are government special bonds for the agency project construction, reducing the Company's capital expenditure pressure. As of 31 December 2022, the Company had 3 infrastructure construction projects under construction, with an uninvested amount of RMB1.2 billion.

The Company also participated in public utility services. The Company has the pipe network use right from the asset injection of the Management Committee of YICZ, with an estimated value of RMB1.7 billion. The Company signed a lease agreement with Changxing Si'an Oasis Sewage Treatment Co., Ltd. and leased for three years, with an annual rental income of around RMB30 million. As of 31 December 2022, the Company had 2 drainage pipe renewal projects in the Changxing area and Anji area under construction, with a total estimated investment of RMB952.9 million, and an uninvested amount of RMB614.9 million.

Overall, as the sole development entity of YICZ, we expect that the Company's monopoly position will be maintained in the foreseeable future given the sustainability of its policy-related business.

Low but increasing exposure to commercial activities

ZCHG's commercial businesses mainly include property leasing and industrial investment. We consider the Company's exposure to commercial businesses to be low, accounting for less than 10% of its total assets.

ZCHG has received 126 real estates from the local government, with a total area of around 173.8 thousand square meters. All of these real estates are located in Huzhou City. The Company rents out these assets to generate income. Given the high occupancy rate of the leased properties, which provided a supplement rental income to the Company, with a rental income of RMB29.4 million in 2022.

ZCHG also engaged in the construction of self-operated projects, such as an industry park, and rural residential environment improvement project. As of 31 December 2022, it had 9 major self-operated projects under construction or planning, with a total estimated investment of RMB10.7 billion and an outstanding investment amount of RMB9.2 billion. The Company constructs these projects mainly with self-raised funds, exerting certain capital expenditure pressure. In addition, the Company will generate rental and sales income to achieve capital balance. Given the large amount of construction of self-operating projects, we expect the Company will increase its commercial activities exposure in the future.

ZCHG also participated in industrial investment projects. In September 2022, the Company established a partnership enterprise, with Zhejiang Caitong Capital Investment Co., Ltd. as the private equity fund manager. The fund amount is RMB1 billion and it plans to invest in new energy and high-end manufacturing industry in YICZ. The industrial investment will attract high-quality enterprises and promote the development of YICZ.

The Company owns many mines transferred by the Management Committee of YICZ, including quartz and sandstone mines, with a total reserve of 263 million tons and a total estimated value of RMB5.2 billion. The Company plans to exploit and sell these mineral resources in the future to enrich its operating income.

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, it's 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.

Exhibit 4. Government supports from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Capital Injections			
- Cash		31.5	1,431.5
- Assets		10,556.4	0.6
Government Subsidies	15.6	14.2	70.0
Total	15.6	10,602.1	1,502.1

Source: Company information, CCXAP Research

Low debt leverage and moderate asset liquidity

Since it is in the early stage of establishment, the Company has a small debt scale and a low level of financial leverage. In 2022, the Company's total debt amounted to RMB2.2 billion, 90.9% of which were long-term debts and its total capitalization ratio was at a relatively low level of around 11.7%. The Company's short-term debt accounted for about 9.1% of its total debt, most of which was due within one year. However, with the development of YICZ and its expanding projects, we expect the Company will have increasing pressure on capital expenditure in the future, which will mainly rely on external financing.

Exhibit 5. Projects under construction or planning as of 31 December 2022

Project type	No. of projects	Budgeted amount (RMB million)	Invested amount (RMB million)	Outstanding amount (RMB million)
Projects Under Construction				
Infrastructure Construction	3	1,223	47	1,176
Pipe Network	2	952.9	338.0	614.9
Self-Operated Projects	4	4,374.5	1,479.4	2,895.1
Projects Under Planning				
Self-Operated Projects	5	6,320.2	-	6,320.2
Total	14	12,870.6	1,864.40	11,006.20

Source: Company information, CCXAP Research

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, including Policy Banks such as the Agricultural Development Bank of China Changxing Branch and Commercial Banks such as the Industrial and Commercial Bank of China Changxing Branch. 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.

ESG Considerations

ZCHG assumes environmental risks through its infrastructure construction projects and drainage pipe renewal 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, ZCHG has played a crucial role in the social welfare of YICZ by involving the construction of ecological restoration and greening system project in YICZ.

In terms of corporate governance, ZCHG'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. As a newly established entity, the Company's corporate governance and management systems need to be improved.

Rating Methodology

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

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