

## Credit Opinion

16 November 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable

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## Huzhou Nanxun New Town Investment Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Huzhou Nanxun New Town Investment Development Group Co., Ltd with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Huzhou Nanxun New Town Investment Development Group Co., Ltd (“NNTI” or the “Company”) reflects Nanxun District Government’s strong capacity to provide support, and its extremely high willingness to provide support to the Company based on our assessment of the Company’s characteristics.

Our assessment of Nanxun District Government’s capacity to provide support as reflected by its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important infrastructure construction and land development entity in Nanxun EDZ; (2) good access to diversified funding channels; and (3) good track record of receiving ongoing government payments.

However, the Company’s rating is constrained by its (1) moderate commercial business risk; (2) medium contingent risks resulting from external guarantees; and (3) fast-growing debt burden and moderate asset liquidity.

The stable outlook on NNTI’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 roles in primary land development and infrastructure construction in Nanxun EDZ.

## Rating Drivers

- Important infrastructure construction and land development entity in Nanxun EDZ
- Moderate commercial business risk
- Good track record of receiving ongoing government payments
- Fast-growing debt burden and moderate asset liquidity
- Good access to diversified funding channels
- Medium contingent risks resulting from external guarantees

## 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 increase in its strategic significance; or improvement in debt management.

### 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	2023H1
Total Asset (RMB billion)	10.0	17.3	22.3	26.0
Total Equity (RMB billion)	6.1	8.0	9.4	9.3
Total Revenue (RMB billion)	0.6	1.1	2.2	0.9
Total Debt/Total Capital (%)	22.2	45.3	53.1	58.6

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

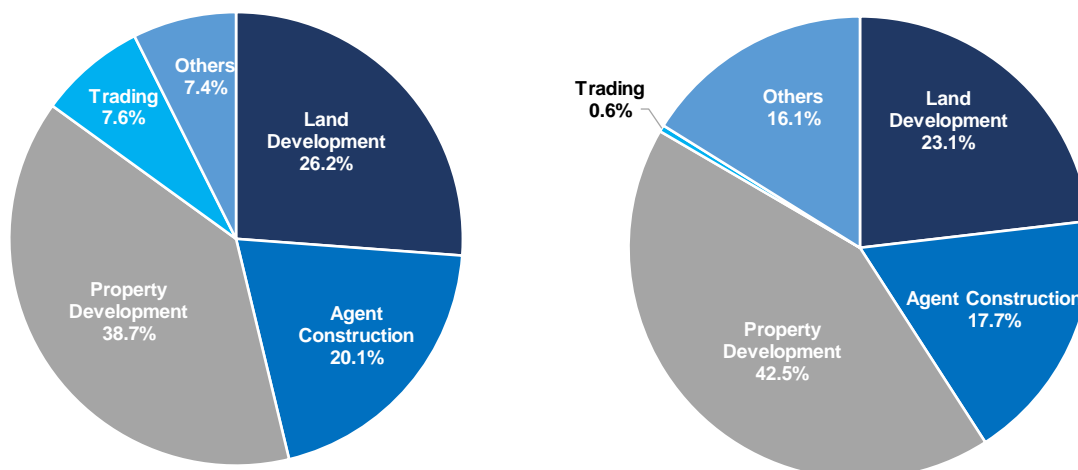
Source: CCXAP research

## Corporate Profile

Established in 2018, NNTI is an important primary land consolidation and infrastructure construction entity in Nanxun Economic Development Zone ("Nanxun EDZ"). The Company has undertaken and completed a large number of urban development projects and played an important role in the development of Nanxun EDZ. It is mainly engaged in agent construction business, land consolidation and development business. In addition, the Company also conducts commercial businesses such as trading and property development. As of 30 June 2023, NNTI was wholly owned by Huzhou Nanxun Xinkai Construction Group Co., Ltd. ("Nanxun Xinkai") and is ultimately controlled by the Finance Bureau of Nanxun District.

### Exhibit 1. Revenue structure in 2022

### Exhibit 2. Gross profit structure in 2022



Source: Company information, CCXAP research

### Exhibit 3. Shareholding Chart as of 30 June 2023

南浔区财政局 Nanxun Bureau of Finance	100%
湖州南浔新开建设集团有限公司 Huzhou Nanxun Xinkai Construction Group Co., Ltd.	100%
湖州南浔新城投资发展集团有限公司 Huzhou Nanxun New Town Investment Development Group Co., Ltd	

Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe that Nanxun District Government has a relatively strong capacity to provide support as reflected by its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal 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. 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

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 4. 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

Located in east part of Huzhou City, Nanxun District is at the junction of Jiangsu and Zhejiang Province and is 100 kilometers away from Shanghai and Hangzhou City. It benefits from the industrial transfer and overflow of technical funds in Hangzhou Bay Industrial Belt and Yangtze River Delta Economic Circle, and develops its industrial system forming by two key industries, which are high-end equipment and information economy, and three traditional industries, including new metal material, green home, and modern textile, respectively. It is also rich in cultural and natural resources including one national “5A” scenic area and one national “4A” scenic area. In 2022, Nanxun District recorded a GRP of RMB55.9 billion, increasing by 3.5% YoY. However, Nanxun District’s fiscal revenue is highly dependent on transfer payments from the high-tier government, and its general budgetary revenue was RMB4.0 billion in 2022. The fiscal balance of Nanxun District is moderate, with a general budgetary revenue/general budgetary expenditure ratio of 57.4% in 2022. In addition, Nanxun District’s debt profile is weak. Nanxun District’s governmental debt amounted to RMB12.4 billion at end-2022, representing 22.1% of GRP and 118.9% of total fiscal revenue.

#### Exhibit 5. Key Economic and Fiscal Indicators of Nanxun District

	2020FY	2021FY	2022FY
GRP (RMB billion)	46.8	52.9	55.9
GRP Growth (%)	3.3	8.5	3.5
General Budgetary Revenue (RMB billion)	4.0	4.3	4.0
General Budgetary Expenditure (RMB billion)	5.5	6.6	6.9
Local Government Debt (RMB billion)	7.6	9.2	12.4

Source: Statistics Bureau of Nanxun District, CCXAP research

Established in August 1992 and approved by the Zhejiang Government in December 1993, Nanxun EDZ is one of the first provincial-level development zones in Zhejiang province. Relying on its excellent location, the surrounding Shanghai Port, Zhapu Port, Ningbo Beilun Port and Zhangjiagang, it can facilitate the import and export trade. Nanxun EDZ has formed four characteristic leading industries including photoelectric communication, elevator, motor, and wood processing. Nanxun EDZ also receives continuous support from the Zhejiang Provincial Government and the Huzhou Municipal Government, such as the development of high-tech industries, providing support for the long-term sustainable development of NNTI.

#### Government Willingness to Provide Support

##### Important infrastructure construction and land development entity in Nanxun EDZ

There are three platforms in Nanxun EDZ, including Nanxun Xinkai, NNTI and Zhejiang Huzhou Nanxun Economic Construction Development Co., Ltd (“NECD”). NNTI and NECD are Nanxun Xinkai’s subsidiaries.

NNTI is an important platform responsible for infrastructure construction and primary land development in Nanxun EDZ as well as a main construction platform of “Ten Thousand Mu and Hundred Billion” project in Nanxun. Overall, the Company has played an important role in infrastructure construction and primary land development in Nanxun EDZ. We expect that the position of the Company will be maintained in the foreseeable future.

The Company's infrastructure construction projects adopt the agency model. The Company signed the entrustment agreement with the entrusted party, and received the construction cost plus 10% for project payment. Such projects are mainly relevant to the construction of environment improvement, renovation, and other government projects. As of 30 June 2023, the Company had completed 13 key infrastructure construction projects with a total investment of around RMB2.1 billion. However, the Company's infrastructure construction projects have moderate sustainability as it has a small number of construction projects in the pipeline. It has 2 projects under construction with a total investment of RMB27.8 million and an uninvested amount of RMB19.0 million; there are 2 projects under planning, with a total investment amount of RMB542 million.

Entrusted by the local government, NNTI undertakes primary land development projects including land expropriation, removal and resettlement, land levelling and development of infrastructure systems and public utilities. The Company receives a return based on the actual costs plus 10% markup after project completion. As of 30 June 2023, the Company had completed 8 land development projects with a total investment of RMB4.5 billion and received payments of RMB267 million. Besides, NNTI had 2 land development projects under construction, with total investment of RMB1.8 billion and uninvested amount of RMB1.0 billion, indicating high capital expenditure pressure. In addition, this business is susceptible to local land planning and construction progress.

### **Moderate commercial business risk**

NNTI also participated in commercial activities such as trading and property development. We estimate that the Company had moderate commercial exposure with the proportion of commercial business assets being around 20% of its total assets.

NNTI started its trading business through its subsidiary. The trading business segment mainly includes the sales of asphalt, asphalt mixture, electrolytic copper, cotton yarn, and rice. The revenue from trading business dropped slightly from RMB178 million in 2021 to RMB171 million in 2022. In addition, the Company's high reliance on its top 5 customers and suppliers increased operating uncertainties in this business.

The Company's self-operated projects mainly include industrial park development and real estate development. As of 30 June 2023, the Company had 12 projects under construction or planning, with total estimated investment of RMB6.4 billion and uninvested amount of RMB4.8 billion, exerting high capital expenditure pressure to the Company. Besides, NNTI raised fund by itself for industry park projects, through external financing channels, and achieved balance through leasing or sales. In 2022, the Company has a material increase in revenue due to the selling of existing real estate projects with the revenue of RMB869 million. However, business sustainability remains uncertain since the revenue is susceptible to local housing market.

### **Good track record of receiving ongoing government payments**

NNTI has a proven track record of receiving government support in the form of asset transfer, project payments and financial subsidies. In 2020, the Management Committee of Nanxun EDZ has transferred seedling assets with a value of RMB582 million and Dongqian Farmers Market, Modern Farmers Market, Jiangjiangyang Park

assets worthing RMB776 million to the Company. In 2021, the local government has transferred land assets worthing RMB1.1 billion to the Company. In 2022, it has transferred investment properties to the Company with a total value of RMB317.8 million, and franchise rights of rooftop photovoltaic power generation with total value of RMB1.1 billion. From 2020 to 2023H1, the Company has received the projects payments from infrastructure construction projects and land development projects with a total amount of RMB1.4 billion. The local government also provided subsidies of about RMB77 million to support the Company's general operations during the same period. Given its role as important infrastructure construction and land development entity in Nanxun EDZ, we expect the local government will continue to support the Company in the future.

### **Fast-growing debt burden and moderate asset liquidity**

NNTI's total debt continued to increase in the past three years due to ongoing capital expenditure. From 2020 to 2023H1, the Company's total debt increased from RMB1.7 billion to RMB13.1 billion, and its total capitalization ratio increased to a high level of around 58.6% in 2023H1. In addition, the Company has moderate debt structure, with short-term debt accounting for about 35.1% of total debt. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

NNTI's asset liquidity was moderate as they were mainly inventories and accounts receivable with weak liquidity. As of 30 June 2023, the inventories and accounts receivable accounted for 46% of total assets, and mainly consisted of the lands and construction costs caused by construction projects. Furthermore, as of 30 June 2023, the Company had receivables of RMB1.8 billion, accounting for 7.6% of total assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

### **Good access to diversified funding channels**

NNTI has diversified sources of funding including bank loans, onshore and offshore bond issuances. The Company maintains a good relationship with policy banks and large domestic banks such as Agricultural Development Bank of China and Industrial and Commercial Bank of China. As of 30 June 2023, the Company's total credit facilities were RMB12.3 billion, of which the unutilized amount was about RMB4.1 billion. The Company also has access to debt capital markets. As of 30 June 2023, the Company had 4 onshore and 2 offshore outstanding bonds, with total outstanding amount of RMB2.6 billion and USD69.0 million, respectively.

### **Medium contingent risks resulting from external guarantees**

NNTI has medium exposure to contingent liabilities. As of 30 June 2023, The Company's external guarantees amounted to RMB4.2 billion, accounting for 45.5% of its net assets. Besides, there are regional cross-guarantees, indicating certain cross-default risk. Nevertheless, all of which were provided to high-qualified state-owned enterprises with controllable business risk.

## **ESG Considerations**

NNTI assumes environmental risks through its infrastructure construction and primary land development 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, NNTI has played a crucial role in the social welfare of Nanxun EDZ by involving the construction of environment improvement, renovation, and other government projects.

In terms of corporate governance, NNTI'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 \(July 2022\)](#).

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