

Credit Opinion

8 December 2023

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

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Huzhou Communications Investment Group Co., Ltd

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g to Huzhou Communications Investment Group Co., Ltd, with stable outlook.

Summary

The A_g long-term credit rating of Huzhou Communications Investment Group Co., Ltd (“HCIG” or the “Company”) reflects (1) Huzhou Municipal Government’s very 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 Huzhou Municipal Government’s capacity to provide support reflects Huzhou City’s good geographic advantage, with ongoing economic growth and good fiscal stability. However, the capacity to provide support is constrained by its relatively weak debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) key role in transportation infrastructure construction of Huzhou City, with ongoing investments in toll road and high-speed railway projects; (2) good track record of receiving ongoing government payments; and (3) good access to funding.

However, the rating is constrained by the Company’s (1) fast debt growth and relatively high debt leverage; and (2) moderate asset liquidity.

The stable outlook on HCIG’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its key role in transportation infrastructure construction of Huzhou City.

Rating Drivers

- Key role in transportation infrastructure construction of Huzhou City
- Good track record of receiving ongoing government payments
- Fast debt growth and relatively high debt leverage
- Moderate asset liquidity
- Good access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity 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 improvement in debt leverage or assets quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide 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)	63.9	73.6	83.4	87.7
Total Equity (RMB billion)	30.4	32.6	33.5	35.3
Total Revenue (RMB billion)	6.7	8.1	10.4	4.8
Total Debt/Total Capital (%)	47.9	48.3	51.2	50.3

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

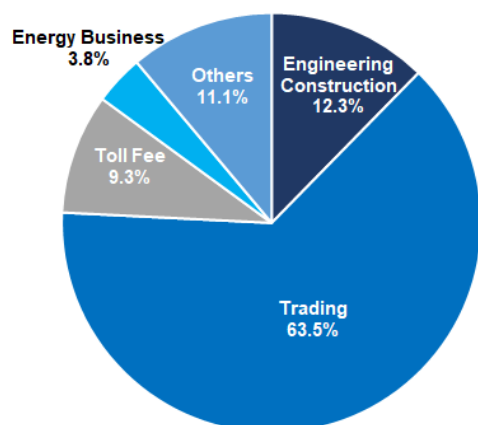
Source: CCXAP research

Corporate Profile

Established in 1994, HCIG is the key investment and financing platform for transportation infrastructure construction in Huzhou City. The Company is mainly engaged in transportation infrastructure construction, including toll road construction and operation, railway construction as well as bus operations. In addition, the Company is also engaged in commercial businesses including engineering construction, energy business and trading.

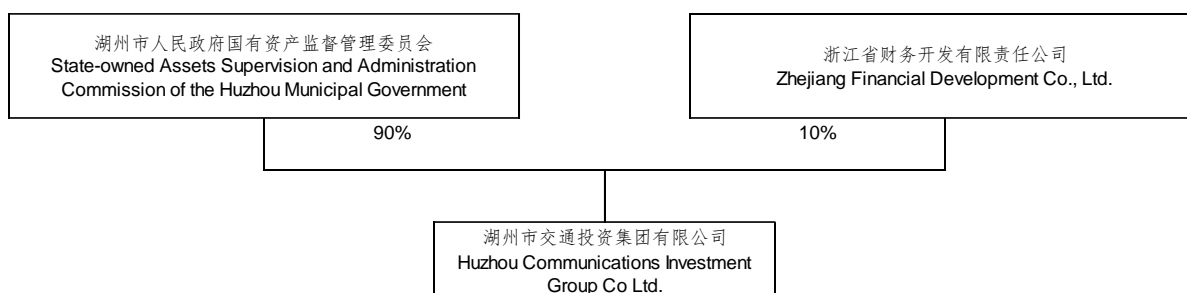
As of 30 June 2023, State-owned Assets Supervision and Administration Commission of the Huzhou Municipal Government ("Huzhou SASAC") held 90% equity interests of HCIG, while Zhejiang Financial Development Co., Ltd held the remaining 10%. Huzhou SASAC is the ultimate shareholder of the Company.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 30 June 2023



Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that Huzhou Municipal Government has a very strong capacity to provide support as reflected by its good geographic advantage, with ongoing economic growth and good fiscal stability. However, the capacity to provide 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. Huzhou City has four leading industries including information technology, high-end equipment, health, and tourism. It has achieved a significant increase in a gross regional product ("GRP") over the past three years. In 2022, its GRP recorded RMB385.0 billion with an economic growth of 3.3% year-over-year ("YoY"), compared with RMB320.1 billion in 2020. Huzhou Municipal Government's general budgetary revenue showed a large increase from RMB33.7 billion in 2020 to RMB41.4 billion in 2021. However, due to the COVID-19 pandemic and tax refund factor, the revenue has decreased to RMB38.7 billion in 2022. However, it has good fiscal stability, with tax income accounting for around 90% of general budgetary revenue for the past three years. In addition, its fiscal balance is at a moderate level, with average general budgetary revenue to general budgetary expenditure ratio of 70.9% over the past three years. Besides, Huzhou Municipal Government's has an increasing debt burden and high debt ratio. It has outstanding direct government

debt of RMB118.9 billion at end-2022 compared to RMB83.7 in 2020, 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

Government Willingness to Provide Support

Key role in transportation infrastructure construction of Huzhou City

There are three major municipal-level state-owned entities in Huzhou City, each with clear positioning under the local government's planning. HCIG has a monopoly position and strong regional importance in transportation infrastructure construction of Huzhou City. It is mainly responsible for the investment, financing, and operation of transportation infrastructure in Huzhou City, as well as the operation and management of transportation-related industries. In addition, the transportation infrastructure construction business is sustainable given the considerable construction projects in the pipeline. However, the large-scale investment needs bring certain capital expenditure pressure to the Company.

HCIG is the sole transportation infrastructure construction entity in Huzhou City. At present, the Company operates 4 toll roads with total length of 171.8 kilometers, which provide stable income for the Company. It also invests in 2 toll roads through equity participation, receiving cash dividends of RMB427 million from 2020 to 2022. Besides, as of 30 June 2023, the Company had 4 highway projects under construction or planning, with a total estimated investment of RMB52.1 billion and an uninvested amount of RMB37.4 billion. One of the projects is fully funded by government special bonds, with a total estimated investment of RMB17.0 billion and an outstanding amount of RMB12.8 billion. The large investment needs would exert high capital expenditure pressure to the Company.

As the main investor in the construction of high-speed railways in Huzhou City, HCIG mainly participates in the investment and construction of railway projects through equity participation. It has completed the investment and construction of three railways, among which the Nanjing-Hangzhou High-speed Railway has generated stable dividends to the Company. The Company holds 21.75% equity of Nanjing-Hangzhou High-speed Railway. It was opened to traffic since December 2000, and received cash dividends totaling RMB887 million from 2019 to 2022. As of 30 June 2023, the Company had 3 railway projects under construction or planning with a total investment of RMB17.6 billion and uninvested amount of RMB11.3 billion, which will be partly funded by government special bonds.

The Company is also engaged in bus operations business via its subsidiary. It provides public bus services within Wuxing District, Nanxun District, and South Taihu New Area of Huzhou City, with transportation network of 4,544 kilometers. In addition, due to its public welfare nature, the local government has provided financial subsidies to support the business operations.

Low exposure to commercial activities

In addition to public activities, HCIG is also engaged in commercial businesses including engineering construction and commodities trading. We consider the Company's exposure to commercial businesses to be low, accounting for less than 15% of its total assets.

The Company participates engineering construction business through its subsidiary Huzhou Transportation Engineering Construction Group Co., Ltd. ("Engineering Group"), which is the only construction company in Huzhou City that has first-level qualification for highway project contracting. Engineering Group conducts the construction of transportation engineering projects in Huzhou City through bidding in the market. As of 30 June 2023, it had contract at hand with total value of RMB1.9 billion, which can ensure its business sustainability. The Company also undertakes the construction of the new campus of Huzhou Vocational and Technical College, with total investment of RMB5.5 billion, and the project is funded by the government special bonds as well as Municipal Finance Bureau.

The Company's energy business is operated via its subsidiary, mainly covering the operation of gas stations and new energy charging piles. As of 30 June 2023, it had 14 gas stations in operation, with increasing income and cash flow. The Company's gas sale revenue increased from RMB367 million in 2020 to RMB394 million in 2022. In addition, the Company has invested in the construction of 16 new energy charging piles in 2022, and plans to construct 40 bus charging stations in 2023

The Company has been engaged in trading business through its subsidiaries. Trading products mainly include steel, cement, copper, and lead. This business is the largest income source of the Company. In 2022, the revenue from trading business accounted for 63.5% of total revenue, but with low gross profit margin of less than 1%. In addition, this business is subject to concentration risks as the Company has high reliance on its top 5 customers and suppliers. The sales from the top five customers accounted for 90.3% of the total sales and the top five suppliers accounted for 62.9% of the total procurement.

Good track record of receiving ongoing government payments

As the important transportation infrastructure construction entity in Huzhou City, HCIG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Since 2020, the local government has transferred large amount of land assets and real properties, and equity interests of state-owned enterprises to the Company, significantly increasing its capital reserves. From 2020 to 2022, the government has injected capitals including the Huhang Railway and Shanghai-Suzhou-Huzhou High-speed Railway projects to the Company, increasing its capital reserves with the value of RMB3.5 billion. During the same period, the local government has provided government subsidies of RMB2.9 billion to the Company to support its operations, and provided special funds of about RMB11.5 billion to support its construction of highways and railways. Given the Company's status as the sole transportation infrastructure construction entity in Huzhou City, we expect the local government will continue to support the Company in the future.

Fast debt growth and relatively high debt leverage

HCIG's total debt has continued to increase in the past three years due to ongoing financing needs. The Company's total debt increased from RMB28.0 billion at end-2020 to RMB35.8 billion at mid-2023, and its total capitalization ratio was at a relatively high level of 50.3% at mid-2023. Given its expanding number of projects, we expect the Company's debt burden will continue to increase in the foreseeable future. Nevertheless, the Company has a reasonable debt structure, as reflected by its short-term debt to total debt ratio of 22.8% at the end of June 2023.

Moderate asset liquidity

The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 30 June 2023, the Company's total asset mainly consists of inventories, fixed assets, and construction under progress, totally accounting for 59.2% of total assets. The inventories are mainly land reserves; the fixed assets are self-owned road assets such as expressways; and the construction under progress mainly consist of construction costs for the road projects under construction, all with weak liquidity. Nevertheless, the toll road assets can provide stable income and profits to the Company.

Good access to funding

As an important municipal platform in Huzhou City, HCIG has good access to funding from banks and bond market. The Company has sufficient standby liquidity. As of 30 June 2023, it had obtained total credit facilities of RMB55.5 billion from diversified domestic policy banks and commercial banks, with available amount of RMB31.5 billion. The Company also has access to debt capital markets. From 2020 to mid-2023, the Company raised RMB15.7 billion through the onshore debt market at a low average rate of 3.1%, including various bond types such as corporate bonds, MTNs, SCPs and PPNs. In addition, the Company has no non-standard financing.

ESG Considerations

HCIG assumes environmental risks through its infrastructure construction projects such as high-speed railways and expressway construction. 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, HCIG has played a crucial role in the social welfare of Huzhou City by involving in bus operations in Huzhou City.

In terms of corporate governance, HCIG'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 4. Peer Comparison as of mid-2023

	Huzhou City Investment Development Group Co., Ltd.	Huzhou Communications Investment Group Co Ltd.
Long-Term Credit Rating	A _g	A _g
Shareholder	Huzhou SASAC (100%)	Huzhou SASAC (90%); Zhejiang Financial Development Co., Ltd (10%)
Positioning	Responsible for urban infrastructure construction, water supply and gas supply services in Huzhou City.	Responsible for multiple transportation related projects including bus operations, high-speed rail construction investment and energy sales.
Total Asset (RMB billion)	143.4	87.7
Total Equity (RMB billion)	48.5	35.3
Total Revenue (RMB billion)	8.3	4.8
Total Debt/Total Capital (%)	61.9	50.3

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

Source: CCXAP research

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