

Credit Opinion

8 November 2023

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

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Karissa Du +852-2860 7126
Credit Analyst
karissa_du@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Huzhou City Investment Development Group Co., Ltd.

Initial credit rating report

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

Summary

The A_g long-term credit rating of Huzhou City Investment Development Group Co., Ltd. (“HIDG” or the “Company”) reflects Huzhou Municipal Government’s very strong capacity to provide support, and 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 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 provide support, which is based on the Company’s (1) strong position in the urban infrastructure construction and public utility services of Huzhou City, with high business sustainability; (2) good track record of receiving ongoing government payments; and (3) good access to funding and sufficient standby liquidity.

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

The stable outlook on HIDG’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its essential position in the development of Huzhou City.

Rating Drivers

- Strong position in the urban infrastructure construction and public utility services of Huzhou City, with high business sustainability
- Medium exposure to commercial activities
- Good track record of receiving ongoing government payments
- High debt leverage and moderate asset liquidity
- Good access to funding and sufficient standby liquidity

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 leverage 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	2023H1
Total Asset (RMB billion)	102.2	113.7	132.0	143.4
Total Equity (RMB billion)	37.4	39.9	45.1	48.5
Total Revenue (RMB billion)	11.7	15.2	16.4	8.3
Total Debt/Total Capital (%)	56.3	60.4	61.1	61.9

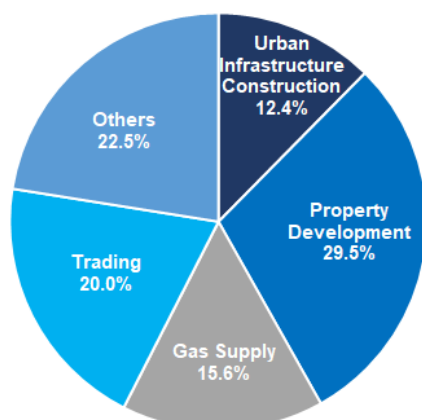
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 1993, HIDG is the most important local infrastructure investment and financing companies ("LIIFC") as well as the largest state-owned operation platform in Huzhou City. The Company is mainly engaged in the urban infrastructure construction, water supply and gas supply services in Huzhou City. It has also participated in other commercial activities such as property development, trading, and property leasing business. The Company played a significant role in implementing the Huzhou Municipal Government's urban planning and development policies and have received strong financial and operational support from the Huzhou Municipal Government. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Huzhou Municipal Government ("Huzhou SASAC").

Exhibit 1. Revenue structure in 2022



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 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 including the debt of local state-owned enterprises. 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 2. 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

Strong position in the urban infrastructure construction and public utility services of Huzhou City, with high business sustainability

There are three major municipal-level state-owned entities in Huzhou City, each with clear positioning in the regional development. As the largest state-owned asset operation platform in Huzhou City, HIDG plays a significant role in implementing the Huzhou Municipal Government's urban infrastructure construction and housing development policies and plans. It is also the most primary public utility services provider in Huzhou City, with 95% market shares of water supply and gas supply markets in the region. As a primary government-authorized infrastructure constructor in Huzhou City, the Company has undertaken a wide variety of public policy projects within Huzhou City. Given its strong regional importance in Huzhou City, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future. In addition, the abundant construction projects under pipeline can ensure the business sustainability of the Company.

The Company is authorized to undertake urban infrastructure construction projects including roads, bridges, buildings, parks, hospitals and medical institutions, drainage systems and other public facilities. The Company conducts infrastructure construction projects under agency construction model, which, upon completion of construction, the entrusting parties will settle with the Company based on the project investment amount plus 10% markup. As of 30 June 2023, the Company had 21 infrastructure construction projects under construction or planning, with total estimated investment of RMB32.1 billion and uninvested amount of around RMB10.6 billion.

As a key force of the Huzhou Municipal Government for implementing its housing policies and improve the housing conditions for low-income households in Huzhou City, the Company is also engaged in the construction and development of affordable housing in the region. Upon completion of construction, the Company will sale the affordable houses to targeted residents based on government-guided prices. As of 30 June 2023, it had 3 affordable housing development projects under construction with total investment amount of RMB1.3 billion and uninvested amount of around RMB504 million.

The Company also participates in water supply business, involving tap water supply and wastewater treatment. As the sole water supplier in Huzhou City, the Company provides tap water to over one million residents in an area of approximately 1,570 square kilometers in Huzhou City via 4 water supply plants. Besides, the Company is also the sole wastewater treatment provider in Huzhou City, carrying out the treatment and disposal of the entire domestic wastewater and certain industrial wastewater in the region via 4 wastewater treatment plants. The water supply business provides stable income and cash flow to the Company.

The Company is one of the prominent piped natural gas distributors in Huzhou City, offering the most extensive package of gas supply services to about 261,300 households in most of Wuxing District and the whole Nanxun District. The gas supply business is conducted through its subsidiaries including Huzhou Gas Co., Ltd. ("Huzhou Gas", stock code: 6661.HK). As of 30 June 2023, the total length of the natural gas pipelines was over 1,440 kilometers (including that of Nanxun District). As the number of users expands, the Company's gas supply income has grown steadily in recent years. However, the profit margin of this business is highly susceptible to the fluctuation of natural gas prices.

Medium exposure to commercial activities

HIDG's commercial businesses mainly include property development, trading, and property leasing businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% to

30% of its total assets. Given that the local government is transferring cultural and tourism assets into the Company, we expect its exposure to commercial activities will further increase.

The Company involved in commercial housing development, comprising high quality residential properties targeting the mid to high-end retail market in Huzhou City. As of 30 June 2023, it had 10 commercial housing development projects under construction with total investment amount of RMB10.3 billion and uninvested amount of around RMB3 billion, exerting high capital expenditure pressure to the Company.

HIDG also engaged in property leasing and management business, including office buildings and commercial plazas, providing supplementary income to the Company. As of 30 June 2023, the Company had 5 leasable properties with total leasable area of 187 thousand square meters and occupancy rate of 90% to 100%. The Company is also responsible for the construction of CBD projects in the Changdong Area of South Taihu New Area. As of 30 June 2023, it had 4 CBD projects under construction with total estimated investment of RMB14.5 billion and uninvested amount of around RMB10.5 billion. We believe the Company's rental income will increase when the CBD projects are completed and leased out, but they exert high capital expenditure pressure to the Company.

The Company started its concrete sales business in 2020. The sales areas mainly include Huzhou urban area, Wuxing District, South Taihu New Area and Nanxun District. The income from this business has demonstrated stable growth in recent years. Its sale income increased from RMB446 million in 2020 to RMB973 million in 2022, with a gross profit margin of 13%. Besides, the Company has ceased the commodity trading business since September 2022 due to the considerations of the low gross profit margin and the potential market risks from electrolytic copper. In 2022, the Company has achieved revenue of RMB3.3 billion from commodity trading business, accounting for 20% of total revenue.

Good track record of receiving ongoing government payments

As a significant state-owned enterprise wholly owned by and under the direct supervision of the Huzhou SASAC, HIDG 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 since establishment, its paid-in capital increased from RMB50 million to RMB8 billion at mid-2023. In 2020, the Company acquired 100% of the equity interest on a gratis basis from Huzhou Housing and Urban-Rural Development Bureau in Huzhou Urban Construction Real Estate Marketing Co., Ltd., increasing capital reserve by approximately RMB18.2 million. In 2023, the Huzhou Municipal Government also provides support to the Company's cultural tourism business through the transfer of tourism assets, broadening its business mix. From 2020 to 2023H1, the Company received support from government in operating subsidies, interest subsidies and tax refunds totally of RMB385.6 million. The Huzhou Municipal Government has entered repurchase agreements with the Company for various urban infrastructure construction and affordable housing development projects, and regularly makes payments to the Company. Given its essential position in Huzhou City, we expect the local government will continue to support the Company in the future.

High debt leverage and moderate asset liquidity

HIDG has an increasing debt burden and a high debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's adjusted total debt increased from RMB48.3 billion at end-2020 to RMB78.8 billion at mid-2023, with a high total capitalization ratio of 61.9%. We expect the Company's debt leverage to remain at a high level, given its large capital expenditure needs for its extensive

construction projects in the pipeline. Nevertheless, the Company has a reasonable debt structure, as reflected by its the short-term debt to total debt ratio of 13.6% at mid-2023.

The Company's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total asset mainly consists of inventories and investment properties, both with weak liquidity. As of 30 June 2023, the Company's inventories amounted to RMB84.4 billion, accounting for 58.8% of total assets, and mainly consisted of construction costs caused by infrastructure construction and property projects. Nevertheless, it has investment properties with a value of RMB16.2 billion for leasing, providing stable supplementary income to the Company. In addition, as of 30 June 2023, the Company had pledged assets of RMB9.7 billion for loans, accounting for 6.7% of total assets.

Good access to funding and sufficient standby liquidity

HIDG has good access to funding from banks and capital markets. The Company has sufficient standby liquidity. As of 30 June 2023, it had obtained total credit facilities of RMB40.7 billion from diversified domestic policy banks and commercial banks, with available amount of RMB17.5 billion. The Company also has access to debt capital markets. From 2020 to October 2023, the Company raised RMB55.5 billion through the onshore debt market, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. Additionally, the Company also has raised USD1.1 billion through the offshore debt market during the same period. The listing of Huzhou Gas on the Hong Kong Exchange has also broadened the Company's equity financing channels. The Company has low reliance on non-standard financing, accounting for less than 10% to total debt.

ESG Considerations

HIDG assumes environmental risks through its infrastructure construction projects as well as water and gas provision. 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, HIDG has played a crucial role in the social welfare of Huzhou City by involving the construction of ecological restoration and greening system project in Huzhou City.

In terms of corporate governance, HIDG'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 3. 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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656