

Credit Opinion

15 December 2023

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

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Hunan Xiangjiang New Area Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g to Hunan Xiangjiang New Area Development Group Co., Ltd., with stable outlook.

Summary

The A_g long-term credit rating of Hunan Xiangjiang New Area Development Group Co., Ltd. (“XNDG” or the “Company”) reflects Changsha Municipal Government’s (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Changsha Municipal Government’s capacity to provide support reflects the Changsha City’s status as a provincial capital, with good economic fundamentals. As a national-level new area located in Changsha City, Xiangjiang New Area was officially recognized as the 12th National New Area in China, the first one in Central China, and the sole National New Area in Hunan Province. In June 2022, Xiangjiang New Area integrated with Changsha Hi-tech Zone and Yuelu District, forming an improved management system and integrative development.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic position in the development of Xiangjiang New Area; (2) good track record of receiving government support; and (3) good access to funding from banks and bond markets.

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

The stable outlook on XNDG’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important strategic position in the development of Xiangjiang New Area.

Rating Drivers

- Important strategic position in the development of Xiangjiang New Area
- High sustainability for public policy businesses
- Medium exposure to commercial activities
- Good track record of receiving government support
- Moderate debt growth and asset liquidity
- Good access to funding from banks and bond markets

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in the exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	87.5	95.9	105.9	111.3
Total Equity (RMB billion)	28.4	36.2	37.2	37.8
Total Revenue (RMB billion)	6.2	10.0	11.0	5.8
Total Debt/Total Capital (%)	55.4	52.4	54.3	55.8

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

Source: CCXAP research

Corporate Profile

Established in 2016, XNDG has played an important role in the development of the Xiangjiang New Area in Changsha City. The Company is mainly engaged in infrastructure construction and primary land development projects in Xiangjiang New Area. It has also participated in other commercial activities such as property management and financial services business. As of 30 September 2023, XNDG was 90% directly owned by the State-owned Assets Supervision and Administration Commission of the Changsha City Government ("Changsha SASAC"), its ultimate controlling shareholder, and 10% owned by Hunan State-owned Investment Operation Co., Ltd.

Exhibit 1. Revenue Structure in 2022

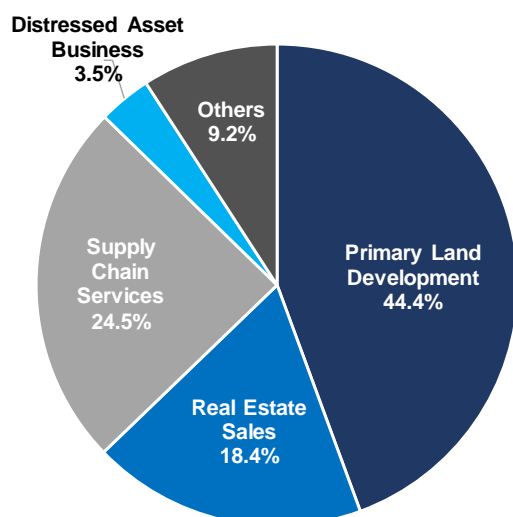
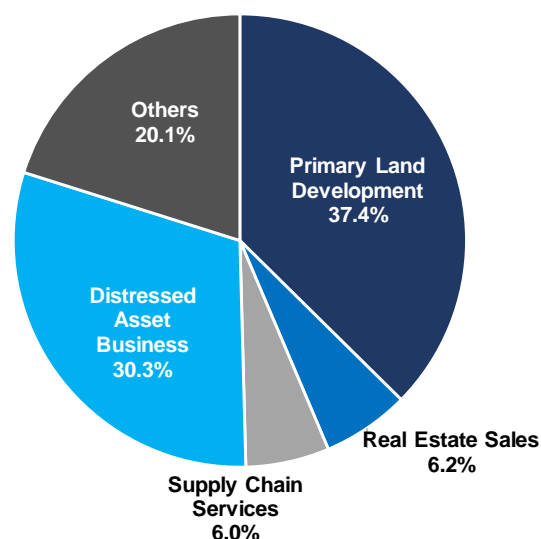


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Shareholder structure as of 30 September 2023



Source: Company information

Rating Considerations

Government's Capacity to Provide Support

We believe that the Changsha Municipal Government has a strong capacity to provide support, given its ongoing economic growth and good fiscal balance.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2022, the gross regional product ("GRP") of Hunan Province was RMB4.9 trillion, ranking 9th among all provinces in China. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB310.2 billion in 2022 from RMB325.1 billion in 2021, with tax revenue accounting for 64.6% of its general public budget revenue.

Changsha City is the capital of Hunan Province. It is an important central city in the middle reaches of the Yangtze River and one of the first batch of national historical and cultural cities. Changsha City has seven pillar industries including construction machinery, automobiles, biomedicine, electronic information, cultural creativity, tourism, and food manufacturing. Benefiting from its good location advantages and optimized tourism structure,

Changsha's GRP reached over RMB1.4 trillion in 2022. Despite the impact of the COVID-19 pandemic, Changsha was still able to maintain a good economic growth rate of 4.5% in 2022. In 2022, Changsha reported a general budgetary revenue of RMB120.2 billion, with tax income accounting for 71% of its fiscal revenue. At the end of 2022, Changsha's local government debt balance was RMB287.0 billion, accounting for 20.6% of GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Changsha City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,214.3	1,327.1	1,396.6
GRP Growth (%)	4.0	7.5	4.5
General Budgetary Revenue (RMB billion)	110.0	118.8	120.2
General Budgetary Expenditure (RMB billion)	148.0	154.2	154.9
Local Government Debt (RMB billion)	222.2	255.4	287.0

Source: Statistics Bureau of Changsha City, CCXAP research

Established in 2015, Xiangjiang New Area is a national-level new area located in the west of the Xiangjiang River in Changsha City, covering an area of 1,200 square kilometers. It is the first batch of National "mass entrepreneurship and innovation" demonstration base. It was officially recognized as the 12th National New Area in China, the first one in Central China and the sole National New Area in Hunan Province. Xiangjiang New Area has the advantages of industrial clusters in intelligent manufacturing equipment and engineering machinery. Xiangjiang New Area will be built into an important base for conversion of high-end manufacturing research and development results and a creative industry cluster. In 2022, Xiangjiang New Area has achieved GDP of RMB428.2 billion, with a growth rate of 5.0%, ranking sixth among the national-level new areas. At the end of 2022, Xiangjiang New Area government debt balance was RMB34.6 billion, accounting for 8.1% of GRP.

In June 2022, Xiangjiang New Area integrated with Changsha Hi-tech Zone and Yuelu District, forming an improved management system and integrative development. Xiangjiang New Area serves as the core support from economic growth of Changsha City with good development potential, providing great opportunities for the business growth of the Company.

Government's Willingness to Provide Support

Important strategic position in the development of Xiangjiang New Area

There are two LIIFCs undertaking land development and infrastructure construction projects in the Xiangjiang New Area, Changsha Pilot Investment Holdings Group Co., Ltd. ("Changsha Pilot Investment") and XNDG, each responsible for the development of different area in the Xiangjiang New Area without overlapping. Changsha Pilot Investment is responsible for the infrastructure construction and land development projects in Yanghu area, Binjiang area and Xiangjiang New Town area. The Company is the important entity to carry out land development and infrastructure construction in Meixi Lake area, Dawangshan area, and Dakecheng area within the Xiangjiang New Area. It has played an important role in various aspects of the development of the Xiangjiang New Area, in activities such as primary land development, resettlement housing, and infrastructure projects. In addition, the Company plans to cooperate with the Xiangtan Economic Development Zone Management Committee and Xiangtan Jiu Hua Investment Holding Group Co., Ltd. to develop the Xinglong Lake area, expanding its development area in Xiangjiang New Area. Given its important strategic position in Xiangjiang New Area, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

High sustainability for public policy businesses

As an important functional platform in Xiangjiang New Area, XNDG has strong competitive advantage in undertaking infrastructure construction and land development projects in the region. It has undertaken a large number of construction projects in Xiangjiang New Area, making great contributions to the economic and industrial development of the region. With large projects in the pipeline and sufficient developable land, we believe that the Company's public policy businesses are highly sustainable. However, the fund balance for most of the public policy projects mainly depends on the local government's land transfer income. At present, the Company focuses on the development in Meixi Lake area and Dawangshan area with sufficient land reserves, where the progress of land transfer and project investment are noteworthy.

The Company has been authorized to undertake the land development projects in the Xiangjiang New Area by Changsha Government and Changsha Administration for Industry and Commerce. The Company carried out primary land development projects through its subsidiaries, covering the area of Dakecheng area, Meixi Lake area and Dawangshan area. The Company primarily adopts partnerships with companies model and partnerships with public institutions model for land development projects. As of 30 September 2023, the Company has transferable land of more than 6,000 mu, ensuring its sustainability. At present, the Company still needs to invest about RMB30.0 billion into the land projects under development, indicating high capital expenditure pressure. In addition, this business is susceptible to local land market and policies.

The Company is engaged in infrastructure construction as the ancillary projects of land development in Meixi Lake area and Dawangshan area, and receives land development income or construction management fee for fund balance. It has completed a number of projects, such as roads and Changsha Dawangshan Tourism Infrastructure Project. As of 30 September 2023, the Company had 14 infrastructure construction projects under construction or planning, with total estimated investment of RMB16.0 billion and uninvested amount of around RMB12.6 billion.

The Company is also responsible for the resettlement housing construction in Meixi Lake area and Dawangshan area, involving construction and sale of resettlement housing to the relocated households at the government guide price. The balance of funds depends on land development income, with good payment collection from the local government. As of 30 September 2023, the Company had 4 resettlement housing projects under construction, with total estimated investment of RMB4.4 billion and uninvested amount of RMB3.0 billion.

Medium exposure to commercial activities

In addition to public activities, XNDG is also engaged in commercial businesses, mainly including property development, supply chain services and financial services businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for 15% to 20% of its total assets.

The Company involved in commercial property development through its subsidiary, providing supplementary income to the Company. As of 30 September 2023, it had 6 commercial property development projects under construction with total estimated investment of RMB11.8 billion and uninvested amount of around RMB2.2 billion. In addition, the Company also holds shares in some real estate projects and obtains investment income in proportion to its investment. In 2022, the revenue from property development increased by 43.4% YoY to RMB2.0 billion.

Since 2019, XNDG has also participated in the asset management business through its subsidiary Changsha Xiangjiang Asset Management Co., Ltd. ("Xiangjiang AMC"), the second AMC in Hunan Province. It includes

the acquisition and disposal of non-performance assets, additional investment based on non-performance asset business, debt restructuring, asset management business, custody of distressed enterprises and acting as bankruptcy administrators. This business is one of the Company's profit sources. In 2022, the gross profit from asset management amounted to RMB388 million, accounting for more than 30% of the Company's total gross profit.

The Company conducts supply chain services business mainly under demand-driven model. The main trading products are commodities, steel, electronic components, coal, and non-ferrous metals. This business provides supplementary income to the Company. In 2022, the trading revenue accounted for 24.5% of its total revenue, but with low gross profit margin of less than 3%. The Company has low reliance on its top 5 customers and suppliers, indicating low concentration risks in this business.

The Company is also responsible for urban asset operations and services through subsidiary. The operations scope covers road maintenance and property management in the Dawangshan and Meixi Lake area, advertising and parking lots in Dawangshan area, as well as gas stations and charging piles in the southern section of Dongfanghong Road in the High-tech Zone. The Company's scale of urban asset operations and service has continued to increase with good profitability, achieving the operating revenue of RMB672 million in 2022 and a gross profit margin of 28.7%.

XNDG's cultural tourism projects are mainly located in the Dawangshan area and are constructed and operated by its subsidiaries. As of 30 September 2023, the Company currently operating 5 projects, with a total investment of RMB9.0 billion and uninvested amount of RMB1.5 billion. Such projects include amusement parks and hotels. However, because the projects are still under the construction or in early stage of operation, they have not yet showed income.

Good track record of receiving government support

XNDG has regularly received support from the local government in the form of operating subsidies and capital injection. The Company has received ongoing capital injection, significantly enhancing its capital strength. In 2021, the Company has transferred RMB6.1 billion funds injection from the Finance Bureau to its paid-in capital. From 2020 to 2023Q3, the Company has totally received government subsidies of about RMB209.4 million. Furthermore, the Company also regularly receives capital injection from the local government, totaling RMB2.8 billion during the same period. Given its strategic position in the development of Xiangjiang New Area, we believe that the Changsha Municipal Government will continue to provide support to the Company.

Moderate debt growth and asset liquidity

XNDG's debt burden has grown moderately over the past three years, due to the ongoing financing for the construction projects. The Company's total debt had increased from RMB35.2 billion at end-2020 to RMB49.5 billion at mid-2023, with total capitalization ratio of 55.8%. However, the Company has a relatively reasonable debt structure. As of 30 June 2023, its short-term debt accounted for about 27.1% 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.

XNDG has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company's total asset mainly consisted of inventories and investment properties, accounting for 61.1% of its total asset. Inventories are mainly investment costs for land development and infrastructure construction

projects, while investment properties are rental properties such as the resort service center, both with low liquidity. Nonetheless, the investment properties can provide stable rental income for the Company.

Good access to funding from banks and bond markets

XNDG has good access to funding from banks and bond markets. The Company has sufficient approved line of credit from diversified banks. As of 30 September 2023, it had obtained total credit facilities of RMB94.5 billion, with available amount of RMB54.4 billion. The Company also has access to onshore and offshore bond markets. From 2022 to 2023Q3, it had raised RMB12.2 billion via issuance of various bond products, such as corporate bonds, PPNs, and MTNs. In 2021, it raised USD330 million in offshore bond market. In addition, the Company has low exposure to non-standard debt, accounting for less than 10% of the total debt.

ESG Considerations

XNDG faces environmental risks because it has undertaken infrastructure construction and land development projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

XNDG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Xiangjiang New Area. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

XNDG's governance considerations are also material as the Company is subject to oversight by the Changsha Municipal Government and has to meet several 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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