

## Credit Opinion

18 December 2023

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

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## Zhejiang South Taihu City Development Holding Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Zhejiang South Taihu City Development Holding Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Zhejiang South Taihu City Development Holding Group Co., Ltd. (“STCD” 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 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 support, which is based on the Company’s (1) strong market position in infrastructure construction of South Taihu New District (“STND”); (2) good access to funding and; (3) good track record of receiving ongoing government payments.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) fast debt growth and moderate asset liquidity and (3) medium contingent risks resulting from external guarantees.

The stable outlook on STCD’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its most important position in infrastructure construction projects of STND.

## Rating Drivers

- Strong market position in infrastructure construction of STND
- Medium exposure to commercial activities
- Good track record of receiving ongoing government payments
- Fast debt growth and moderate asset liquidity
- Good access to funding
- 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 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)	19.2	22.9	27.5	29.6
Total Equity (RMB billion)	12.8	14.0	14.5	14.9
Total Revenue (RMB billion)	0.8	0.8	0.8	0.5
Total Debt/Total Capital (%)	27.4	33.0	42.5	46.4

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

Source: CCXAP research

## Corporate Profile

Reorganized and merged with Zhejiang South Taihu Holdings Group Co., Ltd. ("STHG") in December 2022, STCD is the most important municipal infrastructure construction and development entity in STND. The Company is mainly responsible for infrastructure construction and cultural tourism projects. It has also engaged in other commercial activities such as property development, trading, and self-operated projects. 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

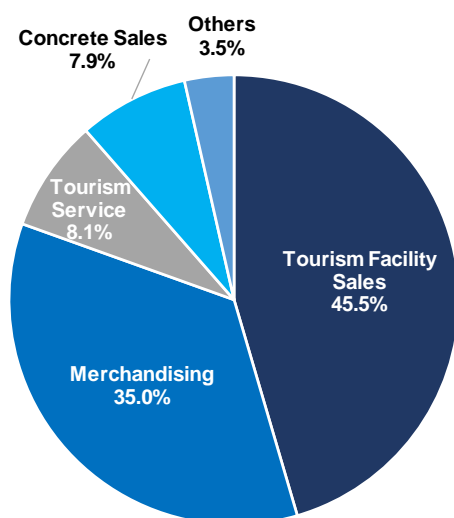
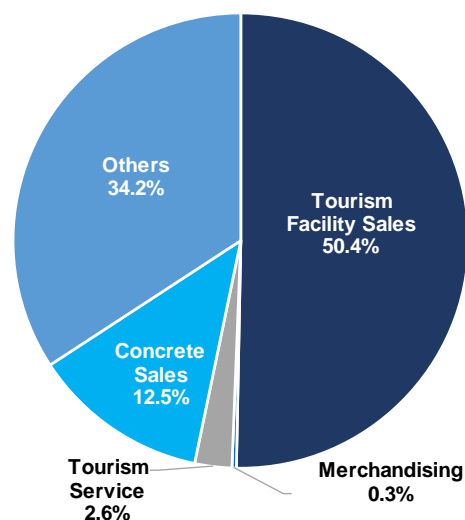


Exhibit 2. Gross Profit Structure in 2022



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 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 June 2019 via integration of Huzhou ETDZ and Huzhou Taihu Tourism District, STND is located within Wuxing District of Huzhou City, with a planned area of 225 square kilometers and the population of 300,000. It focuses on the development of new energy, optoelectronic communications and semiconductors, health as well as tourism. In 2022, STND's GRP increased by 3.2% YoY to RMB29.8 billion, and its general budgetary revenue was RMB4.3 billion. As one of the first batch of "Four New Areas" established in Zhejiang Province, STND has certain policy and industrial advantages, providing a good environment for the Company's business growth.

**Government Willingness to Provide Support****Strong market position in infrastructure construction of STND**

As the most important infrastructure construction and district development entity in STND, the Company is authorized to undertake construction projects including infrastructure, as well as land acquisition and demolition projects in the STND. The Company is also responsible for area development, and the construction and operation of cultural tourism project in STND. With the ongoing development needs of STND, the Company has sufficient projects with strong business sustainability. Given its strong market position in STND, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

The Company adopts agency construction model and self-operated model to conduct infrastructure construction and district development projects. Under the agency construction model, the Company signs agent construction agreement with entrusting parties, which will settle with the Company based on the project investment amount plus 20% markup upon completion of construction. As of 30 June 2023, the Company has 7 infrastructure construction projects under construction or planning, with total estimated investment of RMB11.6 billion and uninvested amount of around RMB9.3 billion, indicating large capital expenditure pressure.

The Company also involves in the construction of infrastructure and cultural tourism projects under self-operated model. As of 30 June 2022, the Company had 5 self-operated projects under construction, with total estimated investment of RMB36.7 billion and uninvested amount of RMB35.0 billion, exerting capital expenditure pressure on the Company. The Company can generate income from tickets, parking lots, and advertising fees for fiscal balance. However, there are uncertainties in the tourism business, causing challenges to the Company's operational capabilities.

Overall, the infrastructure construction business is sustainable given the considerable construction projects in the pipeline, but they also exert high capital needs on the Company. Nonetheless, some of the projects are supported by government special bond funds, with outstanding amount of RMB1.8 billion at mid-2023.

**Medium exposure to commercial activities**

STCD's commercial businesses mainly include commercial property development, and trading business. We consider the Company's exposure to commercial businesses to be medium, accounting for 15% to 20% of its total assets. However, the large amount of construction projects has exerted high capital expenditure pressure to the Company. We also expect that the Company's commercial exposure may increase with the completion of construction projects.

The Company is engaged in commercial property development business, mainly involving sale or lease of residential housing, stores, hotels, and office buildings. As of 30 June 2023, it had 4 commercial property development projects under construction, with total estimated investment of RMB4.8 billion and uninvested amount of RMB2.6 billion. The Company has leased or sold the properties for fund balance. As of mid-2023, this segment has no completed projects and no relevant revenue has been recognized yet, but has a total pre-sale amount of RMB662 million. However, the large initial investment and long payback period will bring large financial pressure on the Company. Besides, the downturn of real estate market may have a negative impact on the sales.

The Company conducts its trading business through its subsidiary and its trading products mainly include concrete, copper products, and cotton yarn. The trading business is one of the main income contributors of the Company, accounting for 43% of its total revenue in 2022, but with low gross profit margin. In addition, the Company has high exposure to concentration risk as the top five suppliers and consumers accounted for around 100% of its purchasing and sales amount. Besides, most of the customers are private enterprises, which increased certain risks to the trading business.

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

As the most important infrastructure construction entity in STND, the Company has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Since 2019, the local government has transferred large amount of tourism assets and equity interests of state-owned enterprises such as STHG to the Company, significantly increasing its capital reserves by more than RMB11 billion. In 2023Q3, the local government injected capital of RMB100 million into the Company. From 2020 to 2022, the local government has provided government subsidies of RMB673.6 million to the Company to support its operations. Given its essential position in STND, we expect the local government will continue to support the Company in the future.

#### **Fast debt growth and moderate asset liquidity**

STCD has increasing debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's adjusted total debt increased from RMB4.6 billion at end-2020 to RMB11.2 billion at mid-2023, with total capitalization ratio of 43.4%. We expect the Company's debt leverage will increase in the future, given its large capital expenditure needs for its construction projects in the pipeline. In addition, the Company has large short-term debt repayment pressure, as reflected by its short-term debt to total debt ratio of 56.4% at mid-2023, indicating that its debt structure needs to be improved.

The Company's asset liquidity is moderate as there were large amount of inventories with weak liquidity. As of 30 June 2023, the Company's inventories amounted to RMB19.0 billion, accounting for 64.3% of total assets, and mainly consisted of infrastructure construction costs, lands, and tourism assets. In addition, as of 30 June 2023, the Company had pledged assets of RMB3.6 billion for loans, accounting for 12.2% of total assets. The moderate asset liquidity may undermine the Company's financing flexibility, which is credit negative.

### **Good access to funding**

STCD 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 RMB7.7 billion from diversified domestic policy banks and commercial banks, with available amount of RMB3.7 billion. The Company also has access to debt capital markets. From 2020 to October 2023, the Company has raised RMB2.7 billion on the onshore bond market through its subsidiary STHG. However, the Company has certain amount of non-standard financing, accounting for less than 15% to total debt.

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

STCD has medium exposure to contingent liabilities. As of 30 June 2023, The Company's external guarantees amounted to RMB4.6 billion, accounting for 31.3% of its net assets. All the external guarantees are provided to state-owned enterprises in Huzhou City, with relatively manageable credit risk as they have supports from the local government. However, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

### **ESG Considerations**

STCD assumes environmental risks through its infrastructure construction projects as well as commercial property development projects in STND. 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, STCD has played a crucial role in the social welfare of STND by involving the projects of infrastructure and cultural tourism project in STND.

In terms of corporate governance, STCD's governance considerations are also material as the Company is subject to the local government's 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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