

Credit Opinion

18 January 2024

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

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Zhuzhou Nanzhou Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Zhuzhou Nanzhou Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Zhuzhou Nanzhou Development Group Co., Ltd. (“Nanzhou Development” or the “Company”) reflects Zhuzhou Municipal Government’s (1) strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Zhuzhou Municipal Government’s capacity to provide support reflects Zhuzhou City’s economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) ultimate control by Zhuzhou Municipal Government; (2) leading position in infrastructure construction and land consolidation of Lukou District; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) high capital expenditure pressure from commercial activities; (2) moderate debt growth and low asset liquidity; and (3) medium exposure to contingent liabilities.

The stable outlook on Nanzhou Development’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its leading position in the development of Lukou District.

Rating Drivers

- Leading position in infrastructure construction and land consolidation of Lukou District
- High capital expenditure pressure from commercial activities
- Good track record of receiving government support
- Moderate debt growth and low asset liquidity
- Access to funding from banks and bond markets
- Medium exposure to contingent liabilities

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 decrease in commercial risks or reduction in exposure to contingent liabilities.

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)	16.4	17.1	17.9	21.3
Total Equity (RMB billion)	8.8	9.0	9.1	10.3
Total Revenue (RMB billion)	0.8	0.8	0.8	0.6
Total Debt/Total Capital (%)	42.4	44.6	43.0	43.3

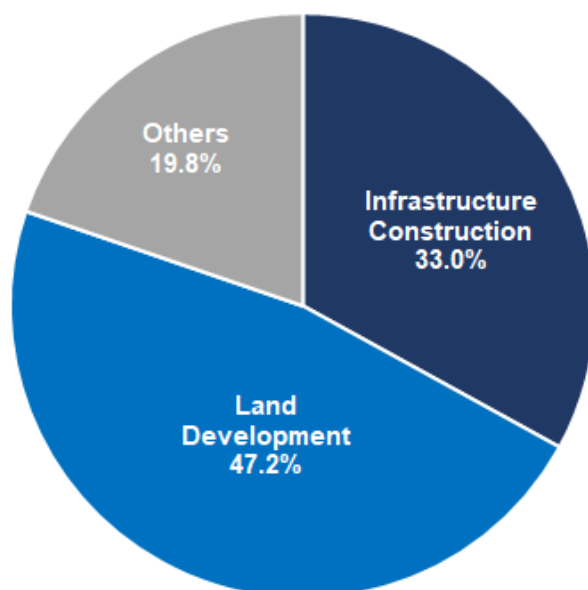
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Established in 2020, formerly known as Zhuzhou Jinda Venture Capital Co., Ltd., Nanzhou Development is the sole local infrastructure investment and financing company in Lukou District, mainly responsible for infrastructure construction and land development in the region. In addition, the Company is also engaged in commercial activities such as industrial park development, franchises, and rural resource development businesses. As of 30 September 2023, Nanzhou Development was 51% owned by Zhuzhou Resources Investment Group Co., Ltd., ("ZRIG"), with Finance Bureau of Lukou District holding the remaining 49%. Its ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of Zhuzhou Municipal Government ("Zhuzhou SASAC").

Exhibit 1. Revenue Structure in 2023Q3



Source: Company information, CCXAP research

Exhibit 2 Shareholder structure as of 30 September 2023



Source: Company information

Rating Considerations

Government's Capacity to Provide Support

We believe Zhuzhou Municipal Government has a strong capacity to provide support given Zhuzhou City's economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

Located in the east of Hunan Province, Zhuzhou City is a key city in the Changsha-Zhuzhou-Xiangtan Economic Integration Area. It is also one of the most important transportation hubs in central China, with the Beijing-Guangzhou Railway and the Shanghai-Kunming Railway lines intersecting in the city. The pillar industries in Zhuzhou have formed a “3+5” industrial layout, including core industries of rail transportation, aviation, and automobile, and emerging industries of new energy, new materials, electronic information, bio-pharmaceutical, and environmental protection. In 2022, Zhuzhou City recorded gross regional product (“GRP”) of RMB361.7 billion, ranking 5th by GRP among 14 prefecture-level cities in Hunan Province. The GRP of Zhuzhou City in the first three quarters of 2023 was RMB280.7 billion, with a YoY increase of 4.9%. The general budgetary revenue of Zhuzhou City increased from RMB18.0 billion in 2021 to RMB19.1 billion in 2022. Zhuzhou City’s fiscal balance is weak, with the ratio of general budgetary revenue to general budgetary expenditure being 35.3% in 2022. As of end-2022, the government debt balance of Zhuzhou was RMB101.4 billion, accounting for 28% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Zhuzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	310.6	342.0	361.7
GRP Growth (%)	4.1	8.3	4.5
General Budgetary Revenue (RMB billion)	20.5	18.0	19.1
General Budgetary Expenditure (RMB billion)	47.0	48.7	54.1
Local Government Debt (RMB billion)	80.9	90.6	101.4

Source: Statistic Bureau of Zhuzhou City, CCXAP research

Located in the central-east of Hunan Province, Lukou District is under the jurisdiction of Zhuzhou City, covering a total area of 1,053 square kilometers. Lukou District is dominated by new materials industry. With rich industrial resources and good location advantages, it has demonstrated an economic growth over the past three years. Its GRP increased from RMB15.0 billion in 2020 to RMB17.7 billion in 2022, with an average economic growth of 6.6% for the past three years. However, Lukou District’s GRP ranked at the bottom among the districts and counties in Zhuzhou City. Nevertheless, its scale of general public budget revenue is Its general budgetary revenue also increased from RMB0.9 billion in 2020 to RMB1.1 billion in 2022, ranking in the middle among the districts and counties in Zhuzhou City. It has moderate fiscal stability, with tax revenue accounting for 69.3% of its general public budget revenue on average over the past three years. In addition, the Lukou District Government has outstanding government debt of RMB4.8 billion at end-2022, accounting for 27.3% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Lukou District

	2020FY	2021FY	2022FY
GRP (RMB billion)	15.0	16.5	17.7
GRP Growth (%)	5.5	8.4	6.0
General Budgetary Revenue (RMB billion)	0.9	1.0	1.1
General Budgetary Expenditure (RMB billion)	3.1	3.4	3.1
Local Government Debt (RMB billion)	3.5	4.2	4.8

Source: Statistic Bureau of Lukou District, CCXAP research

Government’s Willingness to Provide Support

Leading position in infrastructure construction and land consolidation of Lukou District, with good business sustainability

ZRIG, the Company's shareholder, is a rural revitalization and resource investment operation entity in Zhuzhou City. In 2023, ZRIG and Finance Bureau of Lukou District have transferred their equities of several state-owned enterprises to the Company, such as Zhuzhou Luxiang Investment Development Group Co., Ltd. ("Zhuzhou Luxiang"). After the reorganization, the Company has become ZRIG's important subsidiary, responsible for infrastructure construction and land development in Lukou District.

As the only investment and operation entity in Lukou District, Nanzhou Development has leading position in public policy businesses in the region. Entrusted by the Lukou District Government, the Company undertakes infrastructure construction and land development projects by self-raised funds under agent construction model. In addition, the Company has sufficient project reserves, ensuring its business sustainability, but exerting certain capital expenditure pressure.

The local government settles investment costs for the infrastructure construction projects with the Company every year, and makes payments based on the investment costs plus 20% markup to the Company within five years. The Company has undertaken a number of infrastructure construction projects in Lukou District, mainly including roads and sewage treatment plants. As of 30 September 2023, the Company had 10 infrastructure construction projects under construction or planning, with a total planned investment of around RMB4.4 billion and uninvested amount of around RMB1.7 billion, indicating certain capital expenditure pressure.

As for the land development business, the Company receives the land development costs incurred plus a certain percentage of profits after settlement with the local government. Its current projects are concentrated in the Meizi Lake area and the east bank of the Xiangjiang River. From 2022 to 2023Q3, the Company had completed land development projects with total area of 407 mu, and realized the land transfer revenue of RMB588 million. The Company has sufficient land reserves. As of 30 September 2023, the Company had undeveloped lands of 1,226.7 mu, supporting its business operations for the next three to five years. However, this business is susceptible to local land and property markets.

High capital expenditure pressure from commercial activities

Apart from the public policy activities, Nanzhou Development also participates in commercial businesses such as industrial park development, franchises, and rural resource development businesses. At present, the Company's exposure to commercial businesses to be low, accounting for less than 15% of its total assets. However, the Company has large amount of construction projects in the pipeline, resulting in high capital expenditure pressure.

The Company is responsible for the investment and construction of industrial parks and standard factories in Nanzhou New District, and obtains revenue through leasing and selling the factories as well as collecting property and parking fees. As of 30 September 2023, it had 3 industrial park projects under planning with total estimated investment of RMB1.8 billion, indicating certain capital expenditure pressure. In addition, this business is greatly affected by local property market conditions and the investment promotion of the industrial parks.

Nanzhou Development has owned several franchises in urban services of Lukou District, such as rice sales, environmental sanitation and cleaning, and landscaping. However, the income scale of these businesses is small, making low contributions to the Company. As of 30 September 2023, it has 3 franchise projects under planning, with total estimated investment of RMB556 million. These projects could provide garbage treatment, sewage treatment, and nursing service revenue to the Company after completion of construction.

The Company's rural resource development and operation business involves agricultural industrial park development, rural cultural tourism, as well as the development of commercial natural resources such as gravel, wind, light, and water. As of 30 September 2023, it has 4 rural resource development projects under planning, with total estimated investment of RMB1.1 billion. Some of the planned projects will be conducted in cooperation with ZRIG.

Good track record of receiving government support

As the important infrastructure construction entity in Lukou District, Nanzhou Development has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. In 2023, the local government and ZRIG transferred large amount of equity interests of state-owned enterprises to the Company, such as Zhuzhou Luxiang, Zhuzhou County Transportation Construction Development Co., Ltd. and Zhuzhou Meizi Lake Ecological New City Investment Co., Ltd., significantly increasing its capital strength and expanding its business scope. In 2020, the Lukou District Government has injected capitals of RMB508 million to the Company. From 2020 to 2023Q3, the local government has provided government subsidies of RMB269.7 million to the Company to support its operations, and provided special funds of about RMB630.6 million to support its construction projects. Given its strategic position in the development of Lukou District, we believe that the Lukou District Government and its parent company ZRIG will continue to provide support to the Company.

Moderate debt growth and low asset liquidity

Nanzhou Development'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 RMB6.5 billion at end-2020 to RMB7.8 billion at end-2023Q3, with total capitalization ratio of 43.3%. However, the Company has a relatively good debt structure. As of 30 September 2023, its short-term debt accounted for about 6.8% 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.

Nanzhou Development has low asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company's total asset mainly consisted of inventories and other receivables, accounting for 80% of its total asset. Inventories are mainly lands and investment costs for land development and infrastructure construction projects, while the other receivables consist of unreceived payments from local state-owned enterprises. As of 30 September 2023, the Company had pledged assets of RMB3.1 billion for loans, accounting for 14.4% of total assets.

Access to funding from banks and bond markets

Nanzhou Development has access to funding from banks and bond markets. The Company has approved line of credit from diversified banks, including policy banks and state-owned commercial banks. As of 30 September 2023, it had obtained total credit facilities of RMB9.5 billion, with relatively low unutilized amount of RMB580 million, indicating certain short-term liquidity gap. The Company also has access to onshore bond markets through its subsidiary. As of 30 September 2023, it had two outstanding bonds, with total outstanding amount of RMB740 million. In addition, the Company has low exposure to non-standard debt, accounting for less than 10% of the total debt.

Medium exposure to contingent liabilities

Nanzhou Development's external guarantee exposure is moderate. As of 30 September 2023, its external guarantee amount was RMB2.4 billion, accounting for 23.0% of its total equity. All external guarantees of the Company are provided to state-owned enterprises in Lukou District. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

ESG Considerations

Nanzhou Development 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.

Nanzhou Development bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Lukou District. 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.

Nanzhou Development's governance considerations are also material as the Company is subject to oversight by the Zhuzhou 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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