

Credit Opinion

19 February 2024

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

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Hebei Bohai Guokong Urban Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Hebei Bohai Guokong Urban Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Hebei Bohai Guokong Urban Development Group Co., Ltd. (“BHGK” or the “Company”) reflects Bohai New Area Huanghua City Government’s strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of the local government’s capacity to provide support reflects that Bohai New Area Huanghua City ranked first among all districts and counties in Cangzhou City in terms of GRP and fiscal income, with good fiscal growth and self-sufficiency ability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the most important local state-owned enterprise in Bohai New Area Huanghua City; and (2) good track of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high reliance on external financing and moderate access to funding.

The stable outlook on BHGK’s rating reflects our expectation that the local government’s capacity to provide support will be stable; and the Company will maintain its key role in Bohai New Area Huanghua City over the next 12 to 18 months.

Rating Drivers

- Positioned as the most important local state-owned enterprise in Bohai New Area Huanghua City
- Medium exposure to commercial activities with large investment needs
- Good track record of receiving government support
- Moderate access to funding and high reliance on external financing

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 reduced exposure of commercial activities and more diversified financing channels.

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 reduced strategic importance, or a deterioration in its debt management.

Key Indicators

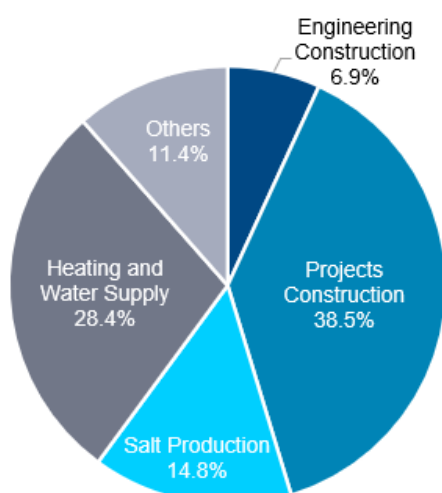
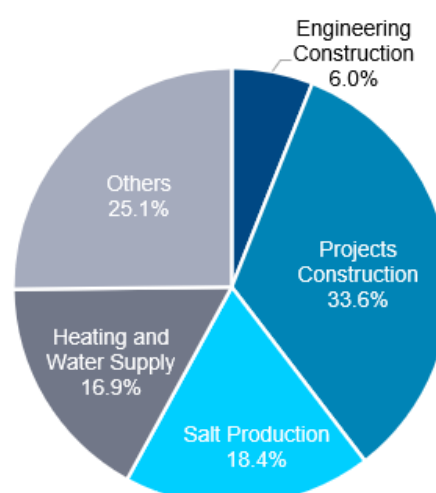
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	22.9	25.4	28.2	29.9
Total Equity (RMB billion)	12.5	14.6	16.0	16.9
Total Revenue (RMB billion)	0.7	1.4	1.6	0.7
Total Debt/Total Capital (%)	35.5	31.1	31.9	33.0

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2017, BHGK is positioned as the most important local infrastructure investment and financing company ("LIIFC") in Bohai New Area Huanghua City. In September 2022, the Finance and Financial Supervision and Administration Bureau of Cangzhou Bohai New Area Huanghua City ("CBNAHC Finance Bureau") injected its 100% equity holdings of Huanghua City Investment Group Co., Ltd. ("HHCI") and Cangzhou Bokong Construction Development Co., Ltd. ("CBCD") into BHGK. BHGK is mainly responsible for the construction of municipal engineering, land development and consolidation, affordable housing development, ecological restoration, and comprehensive river management projects in Bohai New Area Huanghua City. In addition, it is also conducting commercial activities such as carrying out salt production and sales business and the construction and operation of self-operated projects. As of 30 September 2023, the CBNAHC Finance Bureau was the sole shareholder and ultimate controller of BHGK.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Bohai New Area Huanghua City Government has a strong capacity to provide support, based on its status as the first among all districts and counties in Cangzhou City in terms of GRP and fiscal income, with good fiscal growth and self-sufficiency ability.

Hebei Province is a northern province of China with a good location and rich resources such as coal, steel and marine resources. Together with the Bohai Sea, it encloses the direct-administered municipalities of Beijing and Tianjin. Although affected by the policy to reduce capacity in the coal and steel industries, Hebei Province's economic scale has steadily increased over the past five years. In 2022, Hebei Province recorded a gross regional production ("GRP") of RMB4,237.0 billion with a year-over-year ("YoY") growth rate of 3.8%, ranking 12th among all provinces in China. In 2023, according to the preliminary estimation, its GRP increased to RMB5,913.2 billion with a YoY growth rate of 4.1%. Hebei Province is expected to benefit from the promotion of national strategies including the coordinated development of the Beijing-Tianjin-Hebei region and the construction of Xiong'an New District in the future.

Cangzhou City is one of the prefecture-level cities in Hebei Province and an important part of the national strategy, the Hebei Coastal Area Development Plan, and the coastal urban zone of Hebei Province. Relying on its good industrial foundation and port advantages, Cangzhou City has formed five leading industries, including the petroleum processing industry, petroleum and natural gas mining industry, metal products industry, automobile manufacturing industry, and chemical raw materials and chemical products manufacturing industry. In 2022 and the first three quarters of 2023, Cangzhou City achieved a GRP of RMB438.8 billion and RMB336.0 billion respectively, ranking third in all the prefecture-level cities in Hebei Province. In 2023, based on preliminary estimation, its GRP increased to RMB913.3 billion with a YoY growth rate of 2.6%. Cangzhou Municipal Government's general budgetary revenue is at a medium level compared with other prefecture-level cities in Hebei Province, while its fiscal balance ability is moderate. Over the past three years, the average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 42.3%. As of the end of 2022, Cangzhou Municipal Government's outstanding debt amounted to RMB80.6 billion, accounting for 18.4% of the GRP.

Exhibit 3. Key economic and fiscal indicators of Cangzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	370.0	416.3	438.8
GRP Growth (%)	4.1	7.0	4.2
General Budgetary Revenue (RMB billion)	27.5	30.0	31.7
General Budgetary Expenditure (RMB billion)	73.5	66.9	71.0
Local Government Debt (RMB billion)	58.0	66.1	80.6

Source: Statistics Bureau of Cangzhou City, CCXAP research

Located in the southeast of Hebei Province and around Beijing, Tianjin and the Bohai Sea, Bohai New Area, Huanghua City is an important growth point along the coastal economic zone built by Hebei Province and Cangzhou City. In June 2022, the Hebei Provincial Government reformed the governance system of Bohai New Area and Huanghua City and integrated them to form one administrative region, Bohai New Area Huanghua City. There are 5 functional zones under the jurisdiction, which are Gangcheng Industrial Park, Cangzhou Lingang Economic and Technological Development Zone ("Lingang ETDZ"), Zhongjie Industrial Park, Nandagang Industrial Park and Huanghua City Economic and Technological Development Zone. Based on its location and port advantages and the opportunities of management system reform, Bohai New Area Huanghua City focuses on the construction of the coastal economic zone and has initially formed four leading industries including green chemical industry, biomedicine, equipment manufacturing and modern logistics, with well-known enterprises such as Hebei Xinhai Chemical Group Co., Ltd. and Beijing Xiehe Pharmaceutical Co., Ltd. In 2022, Bohai New Area Huanghua City achieved a GRP of RMB81.4 billion, ranking first among all districts and counties in Cangzhou City, and its growth rate was higher than that of Hebei Province and Cangzhou City. In 2023, its GRP increased by 5.8% YoY to RMB81.4 billion. It has good financial self-sufficiency with an average fiscal balance ratio of 72.5% over the past three years, but its non-tax revenue ratio is relatively high with an average of 51.1%. The direct government debt burden is relatively high relative to its fiscal income and economic scale. At the end of 2022, the outstanding government debt increased by 13.7% to RMB25.7 billion, representing around 31.6% of the GRP and around 267.6% of fiscal income.

Exhibit 4. Key economic and fiscal indicators of Bohai New Area Huanghua City

	2020FY	2021FY	2022FY
GRP (RMB billion)	65.8	75.6	81.4
GRP Growth (%)	-	-	6.0
General Budgetary Revenue (RMB billion)	5.8	6.8	6.9
General Budgetary Expenditure (RMB billion)	9.5	9.1	8.6
Local Government Debt (RMB billion)	-	22.6	25.7

Note: 1. GRP, general budgetary revenue, and general budgetary expenditure in 2020 and 2021 are the sum of those of Cangzhou Bohai New Area and Huanghua City;

2. No officially disclosed data on the local government debt of Bohai New Area Huanghua City in 2020.

Source: Management Committee of Cangzhou Bohai New Area, Huanghua City Government, CCXAP research

Government's Willingness to Provide Support**Positioned as the most important local state-owned enterprise in Bohai New Area Huanghua City**

In September 2022, the Bohai New Area Huanghua City Government reorganized BHGK and positioned it as the most important local state-owned enterprise in Bohai New Area Huanghua City undertaking municipal engineering, land development and consolidation, affordable housing development, ecological restoration, and river management projects in the region. There are also other state-owned enterprises held by the Cangzhou

Municipal Government operating in the region but each of them has a different position. Hebei State-owned China-Czech Friendship Farm Group Co., Ltd. mainly operates in Zhongjie Industrial Park as the sole entity for infrastructures; and Hebei Bohai Investment Group Co., Ltd. is engaging in infrastructure construction, heat supply and sewage treatment in Gangcheng District and the Huanghua Port.

The project types of BHGK's infrastructure construction business mainly include municipal road networks, land consolidation, and shantytown renovation, and are mainly operated by its subsidiaries HHCI and CBCD. Specifically, as an important urban investment company in Huanghua City, HHCI is mainly responsible for the construction projects within Huanghua City, while CBCD's projects are mainly located in Gangcheng District and Lingang ETDZ. Under the agent construction model, BHGK signs the agent construction contract with the entrusting parties (mainly the state-owned enterprises in Bohai New Area Huanghua City), raises the funds itself or from financial allocations and charges payment equal to the investment cost plus a certain markup. As of 31 December 2023, the key infrastructure construction projects completed by BHGK mainly included core area relocation and comprehensive management projects, road and bridge projects, and beautiful countryside projects. Meanwhile, the Company has 5 key infrastructure construction projects under construction with a total investment amount of RMB6.9 billion and an uninvested amount of RMB1.8 billion, as well as 2 key projects under planning with a total planned investment amount of RMB730.0 million.

In order to realize the sustainable development of water supply in the entire Huanghua City, the Huanghua Municipal Water Affairs Bureau agreed to hand over water plants and related assets to the Company. According to the Company, when the restructure of water plants is completed, the Company is expected to charge water supply fees in accordance with standards approved by the local government. Meanwhile, BHGK also undertakes the Pipeline Network Engineering Renovation and Update Project with a total investment of RMB608 million.

Medium exposure to commercial activities with large investment needs

BHGK has also been engaged in diversified commercial activities, covering salt production and sales business, property leasing and management, heat and water supply in industrial parks, and it also conducts some self-operated projects. Based on our assessment, the Company's exposure to commercial business is medium with such assets accounting for around 30% of its total assets.

BHGK's salt production and sales business is mainly operated by its subsidiary, and its main products are raw salt, edible salt, and industrial bromine. In the past three years, the revenue from the business has increased yearly from RMB1.3 billion in 2020 to RMB2.4 billion in 2022, while the profits were relatively volatile. The Company's raw salt production has fluctuated in recent years due to the impact of chemical park development, market demand and weather condition, and the customer concentration of raw salt sales is relatively high.

BHGK is engaging in heat and water supply to enterprises located in Lingang ETDZ and Gangcheng District with strong regional monopolistic advantages. BHGK is the only heat supply entity in the Lingang ETDZ, and as of 30 September 2023, the Company sold heat to around 98 enterprises and owned around 55.0 kilometers of heating pipes, covering around 52.4 square kilometers. While the Company's profit in heating business is susceptible to price fluctuations in the coal market. BHGK's water supply business mainly covers the western area of Lingang ETDZ and several parts of Gangcheng District, including industrial raw water supply and seawater supply. The Company covered 135 households with a total water sales volume of 9.9 million tons in 2022, and achieved a profit of RMB17.3 million. The Company's heat and water supply business is affected by the number of companies settled in the park as well as their operating conditions.

BHGK has taken advantage of location advantages or leading industry advantages to carry out self-operated project construction and operations. Key projects include industrial real estate development, housing development, and the construction of Huanghua Port Comprehensive Bonded Zone, and most of the projects are expected to achieve financial balance through sales or leasing. As of 31 December 2023, there were 6 key projects under construction with a total investment amount of RMB6.2 billion and an outstanding investment amount of RMB2.9 billion, as well as 2 projects under planning with a total budgeted investment of RMB1.9 billion. BHGK's self-operated projects have high capital requirements and large remaining investment scales, and subsequent capital balance and cost recovery cycles are volatile to the progress of local industrial development and changes in the policy environment.

BHGK's leasable assets include factories, business centers and shops, which bring supplemental revenue to the Company. As of 30 September 2023, BHGK has a total leasable area of 14,750.0 square meters and the rental income in 2022 was RMB5.8 million. BHGK also provides property management services throughout Huanghua City. As of 31 December 2023, it manages a total of 5 property communities with a total management area of 323,700 square meters. The Company achieved property management income of RMB30.0 million in 2022, while there was a gross loss due to the large initial investment in community renovation.

Good track record of receiving government support

As an important local state-owned enterprise in Bohai New Area Huanghua City, BHGK has a solid track record of receiving government support in various forms such as equity transfer, financial subsidies, and government payment for construction projects. From 2020 to 2023H1, as the local government continuously injected state-owned enterprise equities and capital into the Company, BHGK's capital reserve increased from RMB12.1 billion to RMB15.6 billion. Meanwhile, BHGK has received a total of around RMB1.1 billion in subsidies during the same period. In addition, the Company has received repayments from infrastructure projects with a total of RMB749.0 million. As of, BHGK has large scale of completed and unsettled infrastructure construction projects in inventories. Considering that BHGK will continue to undertake local infrastructure construction and urban development functions, the Company is expected to continuously receive government payment for its construction activities.

Given the Company's strategic importance in Bohai New Area Huanghua City, we believe that the local government will provide BHGK with ongoing operational and financial support.

Exhibit 5. Track Record of Government Support from 2020 to 2023H1

(RMB million)	2020FY	2021FY	2022FY	2023H1
Capital Reserve	2,639.2	1,936.0	1,258.8	303.9
Cash Injection	-	-	-	480.7
Equity Transfer	-	-	13,437.1	-
Infrastructure Project Repayments	106.0	170.0	323.0	150.0
Government Subsidies	386.8	263.9	272.2	167.6
Total	3,132.0	2,369.9	15,291.1	1,102.2

Source: Company information, CCXAP Research

Moderate access to funding and high reliance on external financing

BHGK's debt level increase rapidly in recent years because of its construction projects. As of 30 June 2023, the Company's total debt increased to RMB8.3 billion from RMB6.9 billion at end-2020. The total capitalization ratio, as measured by total debt to total capital, was maintained at a manageable level as support from the local

government, which was 33.0% as of 30 June 2023. The Company's debt structure is manageable with long-term debt accounting for more than 70% of total debt. However, the cash to short-term debt ratio kept decreasing over the past three years. As of 30 June 2023, the cash to short-term debt ratio decreased to 0.3x, indicating a relatively high refinancing need to cover its short-term debt. Considering the large investment of its projects, we expect the Company to rely on external financing to fulfill its investment needs and its total debt to increase in the next 12-18 months.

Exhibit 6. Key Projects under Construction and Planning as of 31 December 2023

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
Project under construction				
Infrastructure Construction	5	6.9	5.1	1.8
Self-operated Projects	6	6.2	3.3	2.9
Project under planning				
Infrastructure Construction	2	0.7	-	0.7
Self-operated Projects	2	1.9	-	1.9
Total	15	15.7	8.4	7.3

Source: Company information, CCXAP Research

BHGK's funding channel is moderate with high reliance on indirect financing. As of 30 June 2023, the Company's bank loans accounted for more than 85% of the total debt and direct financing accounted for around 5.4%. Its subsidiary, CBCD, issued a 1-year private corporate bond with a coupon rate of 5.3% in June 2023 to raise RMB500 million. As a local SOE, BHGK's direct financing ability would be relatively affected by the regional financing environment and policy changes. Meanwhile, its liquidity cushion was limited with an undrawn credit facility of RMB1.7 billion, while most of the facilities were provided by different banks such as policy banks, joint-stock commercial banks, and city commercial banks. The Company has manageable exposure to non-standard financing products which are mainly financial leasing. As of 30 June 2023, the Company's non-standard financing was RMB962.9 million, accounting for around 10% of the total debt.

ESG Considerations

BHGK faces environmental risks because it has undertaken construction business. 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.

BHGK bears social risks as it implements public policy initiatives by building public infrastructure in Bohai New Area Huanghua City. 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.

BHGK's governance considerations are also material as the Company is subject to oversight by the Bohai New Area Huanghua City Government and must 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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