

Credit Opinion

20 March 2024

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

Analyst Contacts

Olivia Feng +852-2860 7138
Senior Credit Analyst
olivia_feng@ccxap.com

Simon Chen +852-2860 7138
Credit Analyst
simon_chen@ccxap.com

Elle Hu +852-2860 7120
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

Zhejiang Xingshanghe Urban Development Group Co., Ltd

Initial credit rating report

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

Summary

The BBB_g long-term credit rating of Zhejiang Xingshanghe Urban Development Group Co., Ltd. (“ZXUD” or the “Company”) reflects (1) Nanxun District Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Nanxun District Government’s capacity to provide support is reflected by its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) status as the most important infrastructure construction and state-owned assets operation entity in Nanxun District; (2) high sustainability of public policy businesses; (3) good track record of receiving government support; and (4) good access to multiple financing channels with sufficient credit facilities.

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

The stable outlook on ZXUD’s rating reflects our expectation that the Company will maintain its status as the most important infrastructure construction entity in Nanxun District. We also expect that the Company will continue to receive ongoing government support.

Rating Drivers

- Most important infrastructure construction and state-owned assets operation entity in Nanxun District
- High sustainability of public policy businesses
- Medium exposure to commercial activities with manageable commercial risks
- Fast debt growth and moderate asset liquidity
- Good access to multiple financing channels and sufficient credit facilities
- Good track record of receiving government support
- Medium contingent liability risk from external guarantee

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 a decrease in exposure to commercial activities.

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 a decrease in its strategic significance or weaker government support.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	77.7	89.1	94.8	107.4
Total Equity (RMB billion)	29.5	32.5	39.2	41.3
Total Revenue (RMB billion)	3.2	5.1	5.8	3.3
Total Debt/Total Capital (%)	58.9	60.1	54.4	58.2

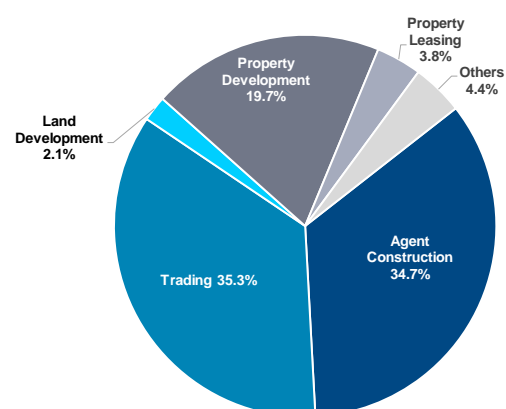
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company Data, CCXAP research

Corporate Profile

Founded in 2020, after acquiring 93.1% of the equity of Huzhou Nanxun State-owned Assets Investment Holding Co., Ltd ("NXSA") in 2022, ZXUD became the most important local infrastructure investment and financing company ("LIIFC"), with the largest asset size, in Nanxun District. The Company mainly engages in land development, agent construction, and sewage treatment in Nanxun District. Apart from public policy business, it is also engaged in commercial businesses such as property development, property leasing and trading. As of 30 September 2023, the Company was wholly owned and directly controlled by the Finance Bureau of Nanxun District.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Nanxun District Government has a strong capacity to provide support as reflected by its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal 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 gross regional product ("GRP") over the past three years. In 2023, Huzhou City recorded a GRP of RMB401.5 billion, increasing by 5.8% year-over-year ("YoY"). Due to the economic recovery and industry growth, Huzhou Municipal Government's general budgetary revenue increased from RMB38.7 billion in 2022 to RMB41.1 billion in 2023. It also has good fiscal stability, with tax income accounting for around 90% of general budgetary revenue for the past three years. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 67.6% in 2023. However, Huzhou Municipal Government's debt burden was large with an outstanding direct government debt of RMB136.4 billion at end-2023, accounting for 34.0% of its GRP and 98.6% of its total fiscal revenue.

Exhibit 2. Key Economic and Fiscal Indicators of Huzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	364.5	385.0	401.5
GRP Growth (%)	9.5	3.3	5.8
General Budgetary Revenue (RMB billion)	41.4	38.7	41.1
General Budgetary Expenditure (RMB billion)	52.4	60.2	60.7
Local Government Debt (RMB billion)	102.3	118.9	136.4

Source: Statistics Bureau of Huzhou City, CCXAP research

Located in the east part of Huzhou City, Nanxun District is at the junction of Jiangsu and Zhejiang Province and is 100 kilometers away from Shanghai and Hangzhou City. It benefits from the industrial transfer and overflow of technical funds in Hangzhou Bay Industrial Belt and Yangtze River Delta Economic Circle, and develops its industrial system forming by two key industries, which are high-end equipment and information economy, and

three traditional industries, including new metal material, green home, and modern textile, respectively. It is also rich in cultural and natural resources including one national “5A” scenic area, one national “4A” scenic area and several “3A” scenic areas. In 2023, Nanxun District recorded a GRP of RMB58.5 billion, increasing by 6.0% YoY. Benefiting from economic recovery and sound connection with Shanghai, its general budgetary revenue increased from RMB4.0 billion in 2022 to RMB4.2 billion in 2023. Government fund revenue is an important supplementary income of Nanxun District, but it is largely affected by the land market conditions. The government funds in 2023 were recorded as RMB5.3 billion, a YoY increase of 5.8%. The fiscal balance of Nanxun District is moderate, with a general budgetary revenue/general budgetary expenditure ratio of 61.8% in 2023. In addition, Nanxun District’s debt profile is weak. Nanxun District’s governmental debt amounted to RMB14.6 billion at end-2023, representing 25.0% of GRP and 118.9% of total fiscal revenue.

Exhibit 3. Key Economic and Fiscal Indicators of Nanxun District

	2021FY	2022FY	2023FY
GRP (RMB billion)	52.9	55.9	58.5
GRP Growth (%)	8.5	3.5	6.0
General Budgetary Revenue (RMB billion)	4.3	4.0	4.2
General Budgetary Expenditure (RMB billion)	6.6	6.9	6.8
Local Government Debt (RMB billion)	9.2	12.4	14.6

Source: Statistics Bureau of Nanxun District, CCXAP research

In January 2022, the Shanghai Innovation Cooperation Zone (“SICZ”) was established with the approval of the Huzhou Municipal Government and was planned to be in the southeast of Nanxun District. According to the development plan, it has a total area of 30 kilometers and is mainly divided into three districts, Nanxun ancient towns, Shanghai Bay, and the high-speed railway of the high-tech zone. SICZ will focus on the implementation of the construction, promoting the influence of Nanxun ancient town, enhancing transport networking between Shanghai and Huzhou, and optimizing the environment for entrepreneurship, to promote regional development. As an important entity of infrastructure construction in SICZ, the development of SICZ will provide huge opportunities for the Company.

Government’s Willingness to Provide Support

Most important infrastructure construction and state-owned assets operation entity in Nanxun District

There are four major LIIFCs in Nanxun District to support local economic and industrial development, each with a clear position in the region. ZXUD is the largest LIIFC by total assets, focusing on land development, agent construction, and sewage treatment in Nanxun District, including SICZ. Huzhou Nanxun Transport Investment Group Co., Ltd undertakes transportation construction in the area; Huzhou Nanxun Cultural Tourism Development Group Co., Ltd. is responsible for the development and operation of Nanxun ancient town. Besides, Huzhou Nanxun Xinkai Construction Group Co., Ltd undertakes industrial park construction and operation in the Nanxun Economic and Technological Development Zone. Among all the four major LIIFCs, ZXUD is the most important infrastructure construction and state-owned assets operation entity in the Nanxun District. We believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses

As the most important infrastructure construction and state-owned assets operation entity in Nanxun District, ZXUD has participated in land development, infrastructure construction, resettlement housing and sewage treatment businesses through its subsidiaries. There are considerable construction projects in the pipeline from

these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure on the Company. In addition, the income from agent construction, land development and sales of resettlement houses is subject to government policies, sales, and settlement progress, exerting certain pressure on the Company's payment collection.

The Company is mainly responsible for important infrastructure construction projects such as road and bridge construction, cultural and sports industry facilities in the central urban area of Nanxun District, including SICZ. Entrusted by local government and regional state-owned enterprises, ZXUD carried out infrastructure construction projects by agency construction model before 2022. Under this model, the initial funds are born by ZXUD. The Company will receive repayment from related parties within two years after settlement. The repayment amount would be the actual cost plus a mark-up of 15% to 20%. Since 2022, ZXUD mainly conducts infrastructure projects as a project manager, by signing management contracts with other local state-owned enterprises. Under this model, the Company will no longer be responsible for fundraising. As of 30 September 2023, the Company had 13 infrastructure construction projects under construction, with a total investment of RMB17.0 billion and a remaining investment of RMB0.8 billion. Besides, the Company had 9 projects under planning, with an estimated total investment of RMB3.4 billion. The projects under planning are undertaken by a management model, which reduces the Company's capital expenditure pressure.

ZXUD also undertakes primary land development projects in Nanxun District through the agency construction model. After 2 to 3 years or the project is fully completed, the counterparty will pay the project fee and construction management fee (generally 10% to 20% of the actual expenditure) to the Company. As of 30 September 2023, the Company had sufficient land consolidation projects under construction, with a total investment of RMB8.0 billion and a remaining investment of RMB1.3 billion. However, ZXUD only recognized land development income of RMB125.1 million in 2022. Affected by land market conditions and government transfer plans, there is uncertainty in the sustainability of this business.

According to the resettlement housing construction plan of the local government, ZXUD also conducts resettlement housing construction and sales business in Nanxun District. The Company sells resettlement housing directly to the resettled residents after completion, with the price referring to the government's guide price, and the remaining parts will be sold to the public at the market price. As of 30 September 2023, the Company had 3 resettlement housing projects under construction, with a total investment of RMB6.6 billion, and an uninvested amount of RMB1.7 billion.

ZXUD is one of the important sewage treatment providers in Nanxun District, with a strong regional position and competence. After the completion of the Shanlian Town Sewage Treatment project, the Company has 884.6 kilometers of sewage collection pipeline network and a daily treatment capacity of 120,800 tons, serving around 384,000 residents. Due to the public welfare nature of sewage treatment, the Company regularly receives subsidies from the local government to support its operations.

Medium exposure to commercial activities with manageable commercial risks

ZXUD 's exposure to commercial activities is medium as the commercial assets accounted for around 30% of the total assets as of 31 December 2022. The commercial businesses include property development, property leasing, and trading. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

ZXUD's property development business mainly involves construction and sales of residential complexes, in Nanxun District. In 2022, the revenue from property development increased by 64.7% YoY to RMB1.1 billion

due to sales of the Ditangfu project. As of 30 September 2023, the Company had 3 real estate projects under construction, with a total investment of RMB4.2 billion and an uninvested amount of RMB2.6 billion. The income from property development is susceptible to regional market situations, causing fluctuations in revenue. In addition, due to the large initial investment and long construction period, the Company may face large capital expenditure pressure and uncertainty in the cash collection and investment return.

ZXUD plays an important role in the operation of state-owned assets through its subsidiaries, and owns high-quality commercial properties, talent apartments and industrial plants in the region. The Company has leased self-owned investment properties in Nanxun District to settled companies and government departments, providing stable rental income. In 2022, even affected by the rent reduction policy during the pandemic, the revenue from property leasing increased to RMB224.9 million, with a high gross profit margin of 55.7%.

ZXUD also engages in the trading business, with diversified trading products such as glycol, logs and PTA. The trading business is the Company's largest source of revenue, accounting for 35.3% of its total revenue in 2022, but recording a low gross profit margin of 2.4%. Trading business is based on a sell-to-purchase basis, eliminating the need for cash advances. The Company's trading business has a relatively high reliance on its top 5 customers and suppliers, with the top one supplier accounting for 91.4% of total purchases and the top two customers accounting for 80.8% of total sales. If there is a loss of important customers, the stability and continuity of the trading business may be affected.

Fast debt growth and moderate asset liquidity

With the increasing financing demand for construction projects, ZXUD had a fast debt growth over the past three years. The Company's total debt increased from RMB42.3 billion at end-2020 to RMB57.5 billion at end-2023Q3, with a total capitalization ratio of 58.2%. In addition, the Company has relatively high short-term debt repayment pressure since its short-term debt accounted for about 29.3% of total debt as of 30 September 2023. With a large number of projects under construction, the Company will continue to rely on external financing to meet its future capital needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months.

ZXUD's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, receivables, investment properties, and construction in progress, all with relatively low liquidity. The inventories and constructions in progress are development costs from construction projects, the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, and the investment properties are leasable properties, totally accounting for about 77.8% of the total assets at end-2023Q3. In addition, the Company's intangible assets accounted for about 7.4% of the total assets, most of which were sand and gravel operating rights, which is expected to provide supplementary income to the Company.

Good access to multiple financing channels and sufficient credit facilities

The Company's large investment needs can be mitigated by its multiple financing channels and sufficient credit facilities. The Company has good relationships with multiple commercial banks and policy banks in China, such as Agricultural Development Bank of China and Industrial and Commercial Bank of China, and has obtained sufficient credit facilities. As of 30 September 2023, the Company's total credit facilities were RMB53.3 billion, of which the unutilized portion was RMB19.5 billion. Furthermore, the Company has a track record of direct financing in both onshore and offshore bond markets. From 2020 to 2023Q3, the Company issued a series of bond products in the onshore debt markets, such as corporate bonds, private bonds and PPNs, with coupon

rates ranging from 3.7% to 5.8%, raising RMB6.7 billion in total. As of 30 September 2023, the Company had 3 existing offshore bonds issued by its subsidiaries, with a remaining amount of RMB881.0 million in total. In addition, ZXUD has relatively low exposure to non-standard financing, which accounts for around 14.0% of its total debts.

Good track record of receiving government support

ZXUD has a good track record of receiving support from local government in terms of capital injections, equity transfer, and government subsidies since its establishment. From 2021 to 2023Q3, the local government has injected about RMB2.4 billion in cash into the Company. Furthermore, the local government consistently transfers equity of regional state-owned companies to the Company to support its operation. The Company acquired 93% of NXSA's equity in June 2022, significantly enhancing its capital strength and broadening its business scope. The Company regularly receives subsidies from the local government, which amounted to RMB3.7 billion from 2020 to 2022. Considering the status of ZXUD and its tight relationship with the local government, we expect that the support will continue over the next 12 to 18 months.

Medium contingent liability risk from external guarantee

ZXUD has moderate exposure to external guarantees. As of 30 September 2023, ZXUD's external guarantees amounted to RMB16.5 billion, accounting for 40.1% of its net assets. All guarantees are provided to the state-owned enterprises and rural cooperatives in Nanxun District, which are likely to be supported by the local government when a credit event occurs. Nevertheless, if a credit event occurs in Nanxun District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

ESG Considerations

ZXUD bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

ZXUD involved in real estate construction such as commercial properties in Nanxun District. The Company is also exposed to social risks as a its role of public services provider. Demographic changes, public awareness and social priorities shape government's target for ZXUD, or affect the government's propensity to support the Company.

ZXUD's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

ZXUD's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its status as the most important infrastructure construction entity in Nanxun District, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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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