

Credit Opinion

25 April 2024

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

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Huzhou Nanxun District State-owned Assets Investment Holding Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Huzhou Nanxun District State-owned Assets Investment Holding Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Huzhou Nanxun District State-owned Assets Investment Holding Co., Ltd. ("NXSA" or the "Company") to BBB_g from BBB_g⁻, with stable outlook. The rating upgrade is based on the improving regional strength of Nanxun District, which strengthens the local government's capacity to support the Company. It also reflects the important position of the Company, as the important infrastructure construction entity in the core area of Nanxun District.

The long-term credit rating of NXSA reflects Nanxun District Government's strong capacity to provide support, and extremely high willingness to provide support to the Company based on our assessment of the Company's characteristics. Our assessment of Nanxun District Government's capacity to provide support reflects 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 provide support, which is based on the Company's (1) key role in infrastructure construction and public services in Nanxun District; (2) good track record of receiving government payments; and (3) diversified sources of funding.

However, the rating is constrained by the Company's (1) medium commercial business risk; (2) high short-term debt repayment pressure and moderate asset liquidity; and (3) moderate contingent liability risk associated with external guarantees.

The stable outlook on NXSA's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and that the Company will maintain its key roles in infrastructure construction and public services in Nanxun District.

Rating Drivers

- Key role in infrastructure construction and public services in Nanxun District
- Medium commercial business risk
- Good track record of receiving ongoing government payments
- High short-term debt repayment pressure and moderate asset liquidity
- Diversified sources of funding
- Moderate contingent liability risk associated with 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 a decrease in exposure to commercial activities; or a decrease in external guarantees.

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; decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	71.1	79.6	78.5	79.9
Total Equity (RMB billion)	26.9	29.1	31.8	31.0
Total Revenue (RMB billion)	3.1	4.1	4.2	2.8
Total Debt/Total Capital (%)	58.7	59.7	53.7	55.6

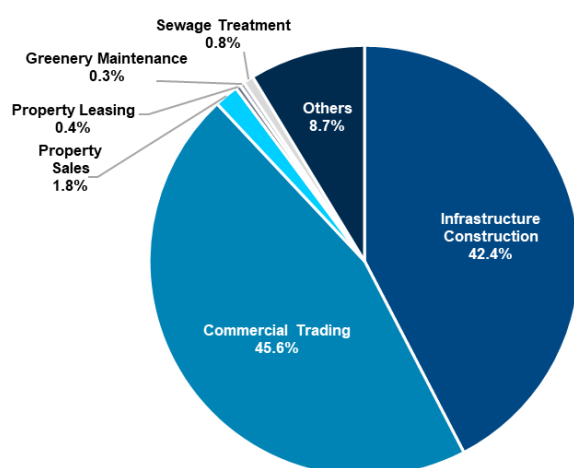
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

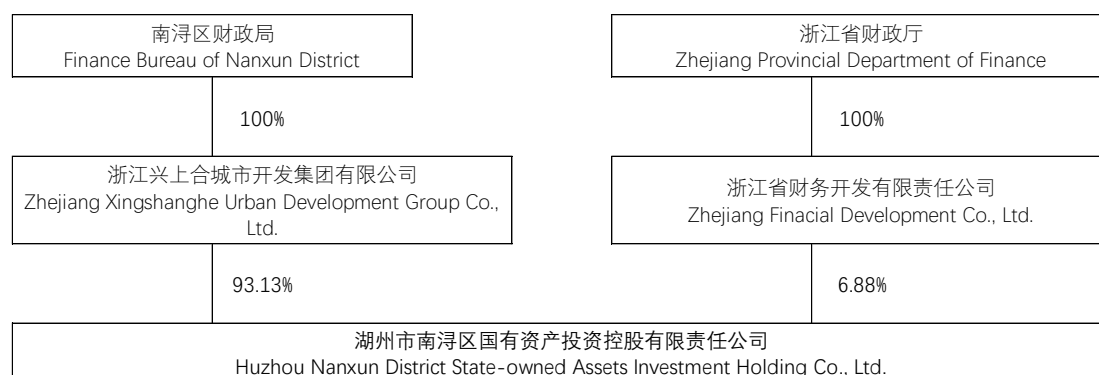
Established in 2004, NXSA is one of the key local infrastructure investment and financing companies ("LIIFCs") in Nanxun District. The Company is mainly engaged in infrastructure construction, affordable housing rental and sales business, and the provision of public services such as sewage treatment, and greenery maintenance in Nanxun District. In addition, the Company also conducts commercial businesses such as commercial trading, commercial housing development and leasing. As of 30 September 2023, NXSA was 93.13% owned by the Zhejiang Xingshanghe Urban Development Group Co., Ltd. ("ZXUD"), and 6.88% owned by Zhejiang Financial Development Co., Ltd. NXSA is ultimately controlled by the Finance Bureau of Nanxun District.

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding Chart as of 30 September 2023



Source: Company information, CCXAP research

Rating Considerations

Government 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 3. 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 4. 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

Government Willingness to Provide Support

Outstanding position among regional state-owned enterprises

There are four major LIIFCs in Nanxun District to support local economic and industrial development, each with a clear position in the region. ZXUD, NXSA's parent company, is the largest LIIFC by total assets, focusing on land development, agent construction, and sewage treatment in Nanxun District, including Shanghai Innovation Cooperation Zone. 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 Nanxun District. As the core subsidiary of ZXUD, NXSA serves as an important platform undertaking infrastructure construction and public services in the core area and some towns of Nanxun District. In the past few years, the Company has completed a series of large-scale projects such as hospital, road, bridge, and landscape projects.

Key role in infrastructure construction and public services in Nanxun District

As an important infrastructure construction and public services provider entity in Nanxun District, NXSA has participated in infrastructure construction, affordable 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 relatively high capital expenditure pressure on the Company. In addition, the income from agent construction, and sales of affordable houses is subject to government policies, sales, and settlement progress, exerting certain pressure on the Company's payment collection.

NXSA continues to undertake infrastructure construction in Nanxun District. Before 2022, all the projects were to be constructed by the agency model. As of 30 September 2023, the Company has completed 22 projects with a total investment amount of RMB3.6 billion and recognized revenue of RMB4.3 billion. Since 2022, the Company mainly conducted infrastructure projects adopting a management model that did not involve financing for infrastructure construction projects. As of 30 September 2023, there were 10 infrastructure construction projects under construction, with a total outstanding amount of around RMB1.3 billion. Besides, the Company had 8 projects under planning, with an estimated total investment of RMB3.4 billion. The infrastructure construction business is sustainable given the uninvested amount from projects in the pipeline. In addition, the projects under planning are undertaken by a management model, which reduces the Company's capital expenditure pressure.

NXSA provides sewage treatment services within the main urban area of Nanxun District and towns such as Shuanglin, Jiuguan and Qianjin Town. As of 30 September 2023, the Company operated 7 sewage treatment plants with a total sewage treatment capacity of 120,800 tons per day. Besides, the Company was entrusted by the local government to maintain the sewage pipe networks for several roads in urban areas and some rural areas in Nanxun District. In 2022, NXSA received a subsidy of RMB207,500 from the government for pipe network renovation. As the Nanxun District Government's further integration plan for sewage treatment plants in Nanxun District, the Company is expected to receive continuous government support and maintain its key role in sewage treatment services.

NXSA has been the primary developer of affordable housing in Nanxun District, which includes public rental housing and resettlement housing. The Company finances affordable housing projects in advance and receives payment from the government after relative housing is sold or leased. As of 30 September 2023, the Company had completed 8 affordable housing projects, with sales income of around RMB1.7 billion from 2021 to 2023Q3. The rental income from some of such completed affordable housing projects provides relatively stable supplement revenue.

Overall, the Company plays a key role in infrastructure construction and public services in Nanxun District. We expect that the leading position of the Company will be maintained in the foreseeable future given its sufficient public-related projects reserves.

Medium commercial business risk

NXSA also participates in commercial activities such as commercial trading, commercial housing development and leasing business. By the end of 2022, the Company had medium commercial exposure with the proportion of commercial business assets being around 30% of its total assets. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

NXSA's property leasing business exposed it to certain business risks as it accounted for a relatively high proportion of its total assets. Its investment properties available for rent include farmer market, wooden floor sales market, office buildings and shops along the street. In 2022, the Company recorded revenue of RMB15.9 million from the leasing business, accounting for 0.4% of total revenue. As of 30 September 2023, the Company had two self-operated projects under construction, named Nanxun International Convention and Exhibition Center and Elephant Hotel Projects, with a total uninvested amount of RMB2.3 billion. The Company aims to create a public community that integrates life, leisure, consumption and work. It will become a new landmark in Nanxun District upon completion. However, due to the large initial investment, there is capital expenditure pressure, and the capital payback period is relatively long, which brings certain business risks to the Company.

NXSA's property development business includes the development and sale of commercial housing. In 2022, the Company generated revenue of around RMB76.7 million, with a gross profit margin rate of around 31.8% from the property development business, which mainly came from the sale of commercial housing. As of 30 September 2023, there were 3 commercial housing projects under construction or planning, with a total uninvested amount of around RMB477.0 million. Such business exposes the Company to higher business risk due to large investments and high reliance on market prospects, especially under the gloomy outlook of the property market in recent years.

NXSA's commercial trading business mainly includes the sales of ethylene glycol, a kind of chemical raw material, and building materials. The commercial trading business is the Company's largest source of revenue, accounting for around 45.6% of its total revenue in 2022, but recorded a relatively low margin profit rate of 2.6%. The Company adopts a demand-driven model with no credit allowed, lowering its business risk. However, the reliance of the Company on its top 5 clients and suppliers was relatively high since the top 5 suppliers account for 65.7% of total purchases and the top 5 customers account for 70.7% of total sales.

Good track record of receiving ongoing government payments

The local government provides strong support to the Company for its business development through various forms such as project payments, cash injections, equity transfers, asset injections and financial subsidies, which significantly enhance the capital strength and increase operational assets. From 2022 to 2023Q3, the Company received RMB1.7 billion in government subsidies to support its operation, mainly through infrastructure construction subsidies; the local government injected cash of RMB1.4 billion into the Company. Given its key roles in infrastructure construction and public services, we expect the Company will continue to receive support from the local government and its parent company in the future.

High short-term debt repayment pressure and moderate asset liquidity

NXSA's total debt has shown a decreasing trend. From 2021 to 2023Q3, the Company's total debt decreased from RMB43.0 billion to RMB38.9 billion. In addition, as the Company's owners' equity continues to grow, the Company's total capitalization ratio decreased gradually, from 59.7% to 55.6%. However, the Company has relatively high short-term debt repayment pressure since its short-term debt accounted for about 27.9% of total

debt as of 30 September 2023, and the liquidity profile was weak with a cash-to-short-term debt ratio of around 0.4x at the same time, indicating that its cash balance was insufficient to cover its short-term debt.

NXSA's asset liquidity was moderate as they were mainly inventories and government-related receivables, with weak liquidity. As of 30 September 2023, the inventories amounted to RMB37.9 billion, accounting for 47.5% of total assets, and mainly consisted of the land and construction costs caused by infrastructure construction and property development business. The liquidity of the Company's inventories was weak as it depended on the construction process of projects and market prospects. At the same time, government-related receivables accounted for 10.4% of total assets. In addition, the Company's intangible assets accounted for about 7.5% of the total assets, most of which were sand and gravel operating rights, which is expected to provide supplementary income to the Company.

Diversified sources of funding

NXSA has diversified sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing. As of 30 September 2023, bank loans and bond financing accounted for 63.4% and 27.3% of the Company's total debt, respectively. The Company maintains a good relationship with policy banks and large domestic banks such as the Agricultural Development Bank of China and China Everbright Bank. As of 30 September 2023, the Company's total credit facilities were RMB36.7 billion, of which the unutilized amount was about RMB11.0 billion. The Company also has good access to both the onshore and offshore debt markets. From 2020 to 2023Q3, the Company issued 3 tranches of onshore bonds and 1 offshore bond, raising around RMB2.1 billion, with a coupon rate of 3.7% to 5%. Meanwhile, the Company had low exposure to non-standard financing, with a proportion to total debt of around 9.3% as of 30 September 2023.

Moderate contingent liability risk associated with external guarantees

NXSA is exposed to a moderate contingent liabilities risk. As of 30 September 2023, the Company recorded an external guarantee amount of RMB23.9 billion, accounting for 76.9% of its net assets. All of these external guarantees were provided to local state-owned enterprises or enterprises set up by local economic cooperatives, which have good credit history and are regulated by the local government. 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

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

NXSA is involved in commercial housing and affordable housing in Nanxun District. The Company is also exposed to social risks in its role as a public services provider. Demographic changes, public awareness and social priorities shape the government's target for NXSA, or affect the government's propensity to support the Company.

NXSA'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.

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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