

Credit Opinion

4 June 2024

Ratings

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

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Zhejiang Xinchang Investment Development Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Zhejiang Xinchang Investment Development Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Zhejiang Xinchang Investment Development Co., Ltd. ("ZXID" or the "Company") to BBB_g+, from BBB_g, with stable outlook. The rating upgrade is based on that the Company, as the most important local infrastructure investment and financing company in Xinchang County, is likely to receive a stronger government support due to the enhancing regional fiscal metrics of Xinchang County.

The long-term credit rating of ZXID reflects (1) Xinchang County 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 Xinchang County Government's capacity to provide support reflects Xinchang County's ongoing economic growth, with relatively good investment potential and fiscal stability, ranking one of the Top 100 Counties in China.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) dominant strategic role as the largest state-owned enterprise in Xinchang County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

The stable outlook on ZXID's rating reflects our expectation that Xinchang County Government's capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

Rating Drivers

- Dominant strategic role as the largest state-owned enterprise in Xinchang County
- High sustainability for the public policy projects
- Medium exposure to commercial activities
- Good track record of receiving government payments
- Diversified access to funding
- High debt leverage and moderate asset quality

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County 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 material decrease in exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang County 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 importance of its policy role, material decrease in government payments, or deteriorated debt management.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	111.4	145.9	179.4
Total Equity (RMB billion)	39.4	51.1	61.5
Total Revenue (RMB billion)	4.6	5.1	3.8
Total Debt/Total Capital (%)	62.0	62.2	62.8

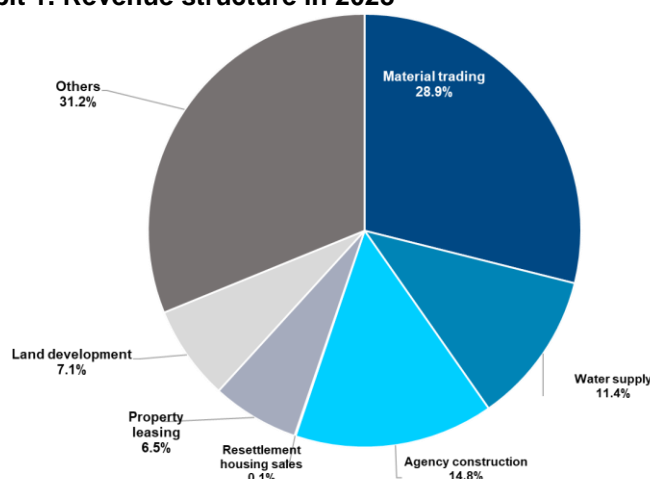
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2003, ZXID is the largest local infrastructure investment and financing company ("LIIFC") by total assets in Xinchang County. It plays the most important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment, and public transportation. Besides, the Company also engages in some commercial activities such as engineering construction, material trading and property leasing. As of 31 December 2023, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County ("Xinchang SASAC").

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Xinchang County Government has a strong capacity to provide support given its ongoing economic growth, with relatively good investment potential and fiscal stability.

Zhejiang is one of the most developed provinces in China with GDP ranking as the 4th place across the country. In 2023, its GDP recorded a strong rebound with a growth rate higher than the national average level. Meanwhile, its general budgetary revenue also grew by 7.0% YoY in 2023, amounted to RMB860.0 billion in 2023. Supported by its strong private sector especially internet-related industry, Zhejiang Province is expected to continue its economic momentum in 2024.

Shaoxing City was the fourth largest prefecture-level city in terms of gross regional product ("GRP") as of end-2023, in Zhejiang Province with abundant tourism resources and well-developed industries. In 2023, it recorded a GRP of RMB779.1 billion with a year-over-year ("YoY") growth rate of 7.8%, which higher than provincial level. Shaoxing City has developed textile, machinery, and food industry as its pillar industries. Currently, new industries such as modern equipment, modern medicine, electronic information, and new materials also grow rapidly. Affected by the tax refund policy, Shaoxing Municipal Government's general budgetary revenue increased from RMB54.0 billion in 2022 to RMB57.9 billion in 2023. The fiscal self-sufficiency was relatively good with an average fiscal balance ratio (general budgetary revenue/general budget expenditure) of 78.4% over the past three years. Shaoxing Municipal Government's outstanding debt increased to RMB188.4 billion, accounting for 24.2% of GDP.

Exhibit 2. Key economic and fiscal indicators of Shaoxing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	679.5	735.1	779.1
GRP Growth (%)	8.7	4.4	7.8
General Budgetary Revenue (RMB billion)	60.4	54.0	57.9
General Budgetary Expenditure (RMB billion)	71.5	80.5	77.9
Local Government Debt (RMB billion)	143.7	168.0	188.4

Source: Statistic Bureau of Shaoxing City, CCXAP research

Xinchang County is located in the southern part of Shaoxing City, with geographical area of 1,213 square kilometers and population of about 427 thousand. Xinchang County has a relatively good investment potential, with 16 listed companies as of end-2023. According to the High-quality Development Index of China's Small and Medium-sized Cities in 2023, it ranked 93th by investment potential among top 100 counties/county-level cities in China. Healthcare and high-end manufacturing are the key pillar industries of Xinchang County, such as Chinese medicine, axle manufacturing, auto parts manufacturing and textile industries. With ongoing development of its pillar industries, Xinchang County has continued to grow and develop in recent years. From 2022 to 2023, the GRP of Xinchang County increased from RMB56.5 billion to RMB60.7 billion, representing a YoY growth of 8.0% in 2023. In 2023, supported by its resilient economic fundamentals, the general budgetary revenue of Xinchang County rose by 11.2% YoY to RMB4.6 billion, of which tax revenue accounting for 62.8%, indicating relatively good fiscal stability. However, Xinchang County has a moderate fiscal self-sufficiency, with a fiscal balance ratio of 62.8% in 2023. In 2023, Xinchang County Government recorded an outstanding debt of RMB19.4 billion, accounting for 31.9% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Xinchang County

	2021FY	2022FY	2023FY
GRP (RMB billion)	51.7	56.4	60.7
GRP Growth (%)	8.2	5.0	8.0
General Budgetary Revenue (RMB billion)	4.5	4.2	4.6
General Budgetary Expenditure (RMB billion)	7.0	7.1	7.4
Local Government Debt (RMB billion)	13.6	17.3	19.4

Source: Statistic Bureau of Xinchang County, CCXAP research

As the largest entity responsible for the infrastructure construction in Xinchang County, we believe the enhancing regional fiscal metrics of Xinchang County will strengthen the local government's capacity to support the Company. It is very likely the Xinchang Government will provide stronger support to the Company if needed.

Government's Willingness to Provide Support

Dominant strategic role as the largest state-owned enterprise in Xinchang County

ZXID is the largest LIIFC in terms of total assets in Xinchang County and the primary LIIFC wholly owned and effectively controlled by Xinchang SASAC. The Company has played an essential and active role in implementing the Xinchang County Government's major strategic initiatives for urban planning, municipal construction and utility and facility operation. It is responsible for various public-related activities such as infrastructure construction, land consolidation, water supply and sewage treatment, shantytown renovation, and public transportation, and has completed various significant infrastructure projects in Xinchang County including the High-tech Zone of Xinchang County. Given its dominant strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

High sustainability for the public policy projects

Entrusted by the local government, ZXID has undertaken a large amount of infrastructure construction projects, such as roads, schools, resettlement housings, and pipe networks. It continues to conduct infrastructure projects under agency construction model. As of 31 December 2023, the Company had 20 major infrastructure construction projects under construction, with a total estimated investment of RMB14.1 billion and an uninvested amount of RMB5.7 billion. The Company has a large amount of infrastructure construction projects in the pipelines, indicating strong sustainability of the business, but exerting great capital expenditures pressure.

ZXID is an important primary land developer in Xinchang County and engages in land development projects pursuant to government development strategies. As of 31 December 2023, the Company had saleable land of 0.5 million square meters, with total book value of RMB5.1 billion, which in turn promises the sustainability of the business. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty to its land transfer income.

ZXID is the sole water supplier and sewage treatment provider in Xinchang County, indicating strong regional position. As of 31 December 2023, the Company had 3 water supply plants with a daily water supply capacity of 155,000 tons and 3 sewage treatment plant with a daily sewage treatment capacity of 225,000 tons.

In addition, the Company is sole operator of the public transport bus services in Xinchang County, involving long distance bus services, fleet leasing services, village bus services, and travel card operations. Given the increase in operational costs and the public nature of public utility services, the Company continues to suffer losses from the utilities and transportation businesses, and highly relies on government subsidies to cover the losses.

Medium exposure to commercial activities

In addition to public activities, ZXID is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider ZXID's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets.

ZXID's material trading business mainly involves sales of steel, asphalt, and electrolytic copper to construction companies. The geographic coverage of its material trading has expanded to cover Jiangsu Province, Shanghai, and Zhejiang Province. However, the material trading business is subject to certain concentration risks. As of 31 December 2023, the top 5 suppliers accounted for 59.6% of the procurement. At the same time, the top 5 customers accounted for 51.3% of the total sales. In the past year, the Company recorded a drop in trading revenue due to policy reason. In addition, the profit of the business is low, with gross profit margin of around 2.4% in 2023.

In addition, the Company are constructing a large number of self-operating projects with self-raised fund, mainly including factories and office buildings. After these projects are completed, the Company will receive income through self-operating, property leasing or sales. It shall be noted that the investment in the self-operating projects is large, exerting high capital expenditure to the Company. In addition, the subsequent operation faces certain uncertainties and the investment payback period may be prolonged. As of 31 December 2023, the Company had 15 major self-operating projects under construction, with invested amount of about RMB4.5 billion.

The Company undertakes engineering construction projects in Xinchang County through the public bidding with self-raised fund. The engineering construction business has brought supplemental income to the Company. The gross profit of the engineering construction was 33.1 million in 2023.

In addition, the Company also engages in other commercial business such as the management of local tourism spots, catering services, and funeral business. However, these businesses are relatively small and contribute little to overall revenue and cash flow of the Company.

Good track record of receiving government payments

ZXID has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and asset transfers. In 2023, the Company

received government assets injection of RMB11.0 billion, ranging from sandstone operating rights to car parks, which is expected to generate additional income for the Company. Besides, the Company also received government subsidy of RMB1.8 billion and capital injection of RMB97.5 million. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

High debt leverage and moderate asset quality

With ongoing financing for its construction projects in recent years, ZXID has a large debt burden and a high debt leverage. The Company's total debt increased from RMB84.1 billion at end-2022 to RMB103.9 billion as of 31 December 2023, with total capitalization of 62.8%. In 2023, the Company's short-term repayment pressure deepened, with cash to short-term debt ratio fell to 0.3x. As of 31 December 2023, the short-term debt reached RMB33.2 billion, which will be serviced by operating income, government subsidies, and external financing. In recent years, project construction expenditures have remained at a large scale. Due to the delay in repayment, the scale of funds occupied has continued to expand; and the funding gap for projects under construction is still large. We expect that, given its large future capital needs, the Company's debt leverage will maintain at a relatively high level in the next 12 to 18 months.

ZXID has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2023, the Company's total asset mainly consists of inventories and non-current assets, which accounted for 85.5% of its total asset. The inventories are mainly investment costs for infrastructure construction and land development projects, while the non-current assets are mainly fixed assets, investment properties, and intangible assets, mainly including reservoir, parking lot franchise, and sandstone mining rights, which are considered low liquidity. Nevertheless, some of the non-current assets, such as reservoir, rental properties, parking lot franchise, and sandstone mining rights, can generate cash flow for the Company.

Good access to funding

ZXID has good access to funding as reflected by its good banking relationships and access to debt capital markets, with bank loans accounting for about 63.1% and bonds accounting for about 32.8% of total debt at end-2023. The Company maintains good relationships with large commercial banks and policy banks. As of 31 December 2023, it had total credit facilities of RMB62.8 billion, with unutilized amount of RMB5.6 billion. The Company has also diversified its financing channel to both onshore and offshore debt capital markets, and has issued various types of bond products, including PPNs, private corporate bonds, and USD bonds. In early 2024, the Company raised USD300 million in offshore market, with coupon rate of 6%. Additionally, the Company has a relatively low reliance on non-standard financing.

Furthermore, the Company has manageable contingent liability risks as its external guarantee amount only accounted for 5.5% of net asset at end-2023.

ESG Considerations

ZXID 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.

The Company is also exposed to social risks as a public services provider in Xinchang County. Demographic changes, public awareness, and social priorities shape government's target for ZXID, or affect the government's propensity to support the Company.

ZXID'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 considerations

We did not notch ZXID's senior unsecured debts rating for structural subordination, reflecting our expectation that in the event of financial distress, the government will likely provide support to the Company as the holding company, thereby increasing the recovery prospects for the holding company's creditors. We also see that the structural subordination risk is mitigated by the strategic importance of ZXID's infrastructure and public facility assets, thus we expect that government support will be provided to the Company to preserve its ownership of such assets.

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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