

Credit Opinion

5 June 2024

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

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Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd. (“HPIC” or the “Company”) reflects Nanxun District Government’s strong capacity to provide support, and very 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) important role in infrastructure construction in Lianshi Town of Nanxun District; (2) high sustainability for public policy projects; and (3) track record of receiving government payments.

However, the rating is constrained by the Company’s (1) large capital expenditure that leads to increased debt burden; (2) moderate asset liquidity; and (3) reliance on non-standard financing.

The stable outlook on HPIC’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 important roles in the infrastructure construction in Lianshi Town of Nanxun District.

Rating Drivers

- Important role in infrastructure construction in Lianshi Town of Nanxun District
- High sustainability for public policy projects
- Track record of receiving government payments
- Increasing exposure to commercial activities
- Increasing debt burden and moderate asset liquidity
- Reliance on non-standard 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 improvement in debt management, asset quality and 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 decreased in its strategic significance; government payments; or increase in exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	11.4	14.1	16.1
Total Equity (RMB billion)	6.1	6.5	7.1
Total Revenue (RMB billion)	0.7	0.4	0.4
Total Debt/Total Capital (%)	39.3	47.6	50.9

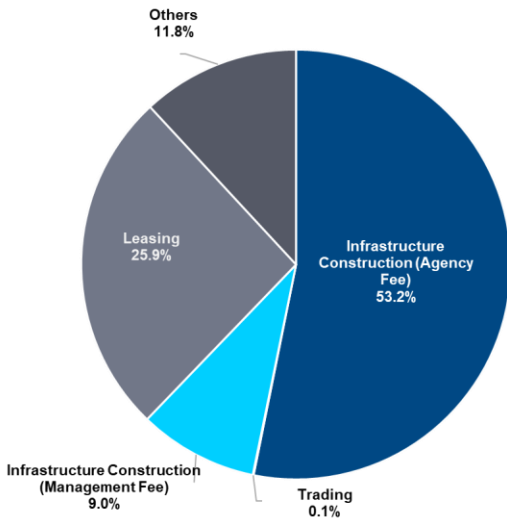
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company Data, CCXAP research

Corporate Profile

Established in 2017, HPIC is an important local infrastructure construction entity in Nanxun District and primarily undertakes infrastructure construction projects such as highway upgrading, shantytown renovation as well as road reconstruction projects in Lianshi Town of Nanxun District. The Company is also engaged in commercial activities including trading and property leasing. As of 31 December 2023, Nanxun District Finance Bureau was its ultimate controller, directly holding 75% of the Company's stake and indirectly holding the remaining 25% through Huzhou Nanxun Communications Water Conservancy Investment and Construction Group Co., Ltd. ("HNCW") and Huzhou Nanxun District Transportation Investment Group Co., Ltd. ("HNTI").

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Gross profit structure in 2023

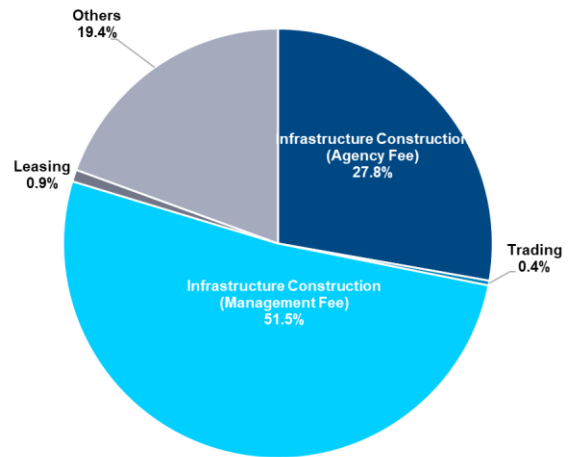
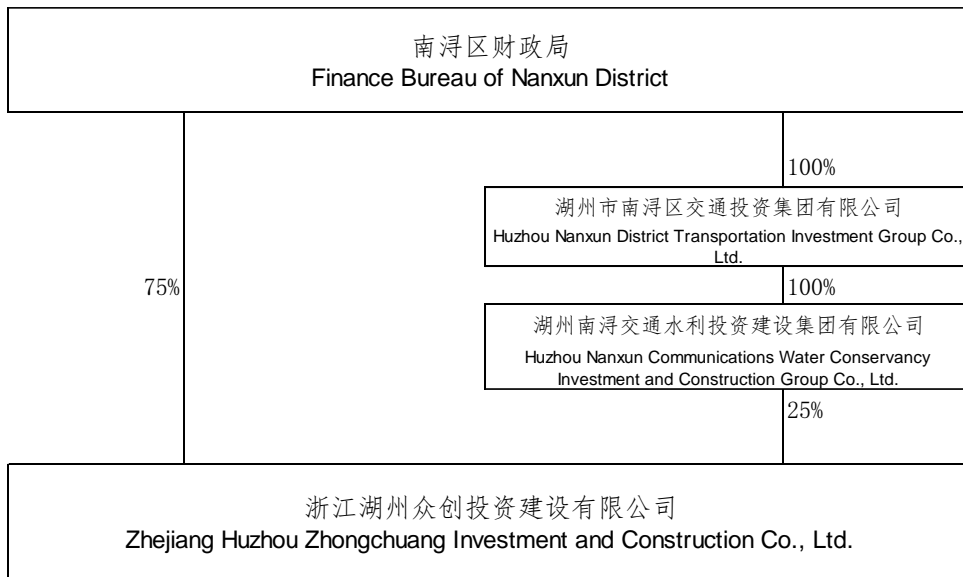


Exhibit 3. Shareholding Chart as of 31 December 2023



Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that Nanxun District Government has a relatively 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 4. 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 land market conditions and land usage planning. The government funds revenue decreased from RMB7.7 billion in 2021 to RMB5.3 billion in 2023. 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 5. 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

Lianshi Town is located in the southeast of Nanxun District, with an area of 122.54 square kilometers. The industrial foundation of Lianshi Town is relatively developed, and the key industries in the town include elevator manufacturing, electromagnetic line processing, and cables. There are three listed companies in the town, including Sicher Elevator Co., Ltd (301056. SZ), Zhejiang Cady Industry Co., Ltd. (603073. SH) and Huzhou Great Wall Electronic Technology Co., Ltd. (603897. SH). In 2023, the industrial added value above the

designated size of Lianshi Town was RMB25.3 billion, with a growth rate of 12.6%, both ranking first in Nanxun District. In 2023, the total fiscal revenue of Lianshi Town was RMB860 million, with a YoY increase of 21.0%; and the general budgetary revenue was RMB152.6 million. As the most important entity of infrastructure construction in Lianshi Town, the future development of the town will provide opportunities for the Company.

Government Willingness to Provide Support

Important role in infrastructure construction in Lianshi Town of Nanxun District, with high sustainability for public policy projects

There are four major local infrastructure investment and financing companies (“LIIFCs”) in Nanxun District to support local economic and industrial development, each with a clear position in the region. Zhejiang Xingshanghe Urban Development Group Co., Ltd (“ZXUD”) is the largest LIIFC by total assets, focusing on land development, agent construction, and sewage treatment in Nanxun District, including Shanghai Innovation Cooperation Zone (“SICZ”); HNTI 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.

As one of the four major local platforms in Nanxun District, HNTI indirectly holds 25% shares of the Company through its wholly-owned subsidiary, HNCW. Nanxun District Finance Bureau entrusts the People's Government of Lianshi Town to manage the Company. As an important entity in Nanxun District, the Company is mainly engaged in infrastructure construction in Lianshi Town, with strong regional exclusivity. The Company's infrastructure construction projects adopt the agency model. From 2022 to 2023, the Company completed 5 key infrastructure construction projects, and there were 20 infrastructure construction projects under construction or planning, with a total outstanding amount of around RMB4.9 billion. Overall, the infrastructure construction business is sustainable given the considerable construction projects in the pipeline. However, this business also exerts great pressure on the Company's capital expenditure.

Increasing exposure to commercial activities

HPIC also participated in commercial activities such as trading and leasing business. We estimate that the Company had low commercial exposure, with the proportion of commercial business assets accounting for around 25% of its total assets.

The Company started its trading business in 2020 and its products mainly include agricultural products such as ethylene glycol, corn, and sorghum, as well as purified terephthalic acid and 5G telecommunications equipment. In terms of 5G telecommunications equipment, HPIC participates in the equipment procurement of 5G electronic products and base station construction for China Telecom Zhejiang Branch and its subsidiaries. In terms of spot trading, the Company's settlement model is to ship first and pay later, with a settlement cycle of one month. As the Company changed the revenue recognition method of trading from the gross method to the net method, the trading business is no longer the largest revenue contributor. In 2023, the trading business recorded a revenue of RMB0.3 million with its gross profit accounting for less than 1% of the Company's total gross profit. In addition, the Company has a high reliance on its top 5 customers and top 2 suppliers. Besides, all the customers are private-owned enterprises. If suppliers have related problems in product quality, supply capacity, and capital turnover, the Company may not be able to deliver goods to downstream customers on time. Also, the Company is exposed to the credit risk of downstream customers in the collection of accounts receivable.

The Company has also participated in the leasing business, including the rental of 5G parking lots, as well as fixed assets such as cables and electronic equipment street lights. In 2023, the gross profit of the leasing business turned positive though its gross margin remained at a low level of 0.6%. The leasing business has continued to be on the verge of losses in recent years, and the profitability of operating assets needs to be improved. As of end-2023, the Company had 2 self-operated projects under construction, with an invested amount of RMB485.7 million, including industrial park projects and an apartment. We expect that the Company's rental income will increase as the construction of the projects is completed. However, these projects exert capital expenditure pressure on the Company. In addition, with the ongoing construction of the self-operated projects, the Company may increase its commercial exposure.

Track record of receiving government payments

HPIC has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. From 2020 to 2022, the Company has received asset transfers from the government including greening projects, and parking spaces operations right, increasing the Company's total capital reserve by RMB5.8 billion. In 2023, the Company received government support of RMB877.9 million, including asset injection of RMB603.8 million and financial subsidy of RMB274.1 million. Given its important position in Lianshi Town, we expect the local government will continue to support the Company in the future.

Increasing debt burden

HPIC's total debt continued to increase in the past year as ongoing investment needs. From 2022 to 2023, the Company's total debt increased from RMB5.9 billion to RMB7.4 billion, and its total capitalization ratio was at a relatively high level of around 50.9% at end-2023. The Company has relatively high short-term debt repayment pressure since its short-term debt accounted for about 43.5% of total debt as of 31 December 2023, and the liquidity profile was weak with a cash-to-short-term debt ratio of around 0.3x at the same time. Given its large capital expenditure and slow operating repayment, we expect the Company's debt burden will remain at a relatively high level.

HPIC has a small exposure to contingent liabilities. As of 31 December 2023, The Company's external guarantees amounted to RMB271.7 million, accounting for 3.8% of its net assets, all of which were provided to local state-owned enterprises. The overall risk of contingent liabilities is manageable. Nevertheless, if a credit event occurs in Nanxun District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

Moderate asset liquidity

HPIC's asset liquidity was moderate as they were mainly inventories with weak liquidity. As of 31 December 2023, the inventories amounted to RMB8.8 billion, accounting for 54.5% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects, green plants and seedlings. Green plants and seedlings in inventory, land acquisition and management rights in intangible assets, were approximately RMB2.6 billion as of the end of 2023. These assets currently have no substantial income and are difficult to realize quickly. Furthermore, as of 31 December 2023, the Company had total restricted assets of RMB0.6 billion, accounting for 8.1% of net assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit-negative.

Reliance on non-standard financing

HPIC's financing channels mainly include bank loans and non-standard debts. The Company maintains a good relationship with several banks, including Policy Banks such as the Agricultural Development Bank of China and Commercial Banks such as the Industrial and Commercial Bank of China Nanxun Branch. As of 31 December 2023, it held an available credit facility of RMB4.1 billion. The Company's bank loan interest rate was around 5.3%. However, the Company's reliance on non-standard financing is high, accounting for around 32.4% of its total debt. Non-standard financing is not as transparent and stable as bank loans, which may cause related credit risks to the Company.

ESG Considerations

HPIC assumes environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, HPIC has played a crucial role in the social welfare of Nanxun District by involving the construction of highway upgrading, shantytown renovation and road reconstruction projects in Lianshi Town of Nanxun District.

In terms of corporate governance, HPIC's governance considerations are also material as the Company is subject to local government oversight and 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd.	Huzhou Nanxun New Town Investment Development Group Co., Ltd.	Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -	BBB _g -
Shareholder	Finance Bureau of Nanxun District (75%); Huzhou Nanxun Communications Water Conservancy Investment and Construction Group Co., Ltd. (25%)	Huzhou Nanxun Xinkai Construction Group Co., Ltd.	Zhejiang Xingshanghe Urban Development Group Co., Ltd.
Positioning	An important local infrastructure construction entity in Lianshi Town of Nanxun District.	An important primary land consolidation and infrastructure construction entity in the Nanxun Economic Development Zone	An important role in infrastructure construction in Nanxun District including Shanghai Innovation Cooperation Zone.
Total Asset (RMB billion)	16.1	29.2	18.0
Total Equity (RMB billion)	7.1	11.3	7.3
Total Revenue (RMB billion)	0.4	2.4	0.9
Total Debt/Total Capital (%)	50.9	53.1	50.8

All ratios and figures are calculated using CCXAP's adjustments based on financial statements in 2023FY.

Source: Company data, CCXAP research.

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