

Credit Opinion

25 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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Anhui Helu Industrial New City Construction Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Anhui Helu Industrial New City Construction Investment Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Anhui Helu Industrial New City Construction Investment Co., Ltd. (“HLIC” or the “Company”) reflects the Lujiang County Government’s (1) strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the Lujiang County Government’s capacity to provide support reflects Lujiang County’s ongoing economic and fiscal growth, but constrained by its relatively weak fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position as one of the key infrastructure construction platforms in Lujiang County and the sole regional developer in Helu Industrial New City; (2) good sustainability of public policy businesses; and (3) solid track record of receiving certain government support.

However, the rating is constrained by the Company’s (1) moderate access to funding channels with limited financial flexibility; (2) rapid debt growth driven by large investment needs; and (3) weak asset liquidity.

The stable outlook on HLIC’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its dominant position in the development of Helu Industrial New City as the important infrastructure construction entity in Lujiang County.

Rating Drivers

- Important infrastructure construction platform in Lujiang County and the sole regional developer in Helu Industrial New City
- Good sustainability of public policy businesses
- Solid track record of receiving certain government support
- Low but rising exposure to commercial activities
- Rapid debt growth driven by large investment needs
- Weak asset liquidity
- Moderate access to funding channels with limited financial flexibility

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in Company's characteristics enhance local government's willingness to provide support, such as improved financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in Company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and increase exposure to commercial activities.

Key Indicators

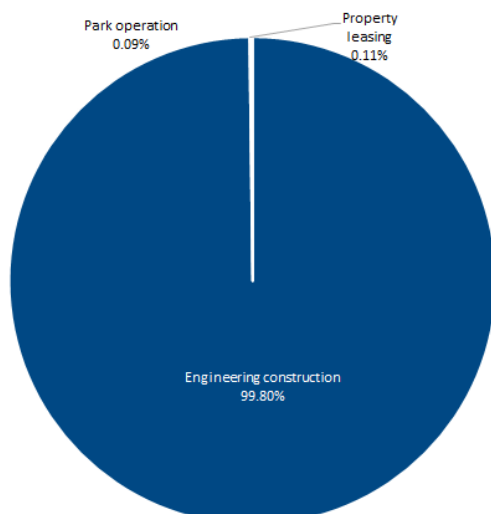
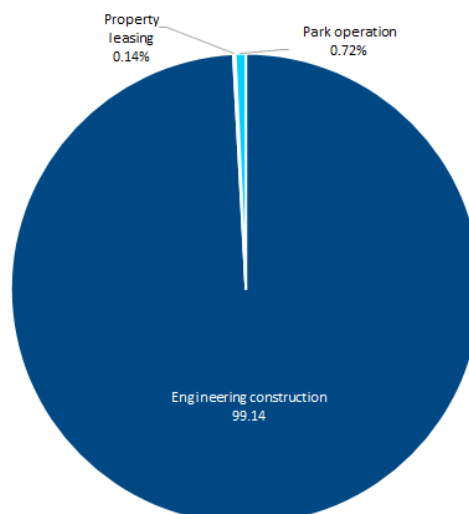
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	0.4	6.7	8.8
Total Equity (RMB billion)	0.3	3.7	4.6
Total Revenue (RMB billion)	0.1	0.5	0.7
Total Debt/Total Capital (%)	18.2	38.0	48.2

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2021, HLIC, became one of the key local infrastructure investment and financing companies ("LIIFCs") in Lujiang County, in order to accelerate the construction of the Helu Industrial New City. The Company is mainly responsible for infrastructure construction in Helu Industrial New City. It also engages in commercial activities, including industrial investment business, property leasing, park operation and self-operated project construction. As the end of 2023, the Finance Bureau of Lujiang County was the ultimate controller of the Company, holding 78.6% stakes of the Company and Agricultural Development Infrastructure Fund Co., Ltd. ("Agricultural Development Fund") held the remaining. As of the same date, the registered capital of the Company was RMB2.5 billion.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Exhibit 3. Shareholding Chart as of 31 December 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Lujiang County Government has a strong capacity to provide support to the Company, given its ongoing economic and fiscal growth, but constrained by its relatively weak fiscal balance.

Hefei City, the provincial capital of Anhui Province, is located in the central part of Anhui Province and the west part of Yangtze River Delta. On the back of prominent strategy position in regional development, Hefei City is the province's political, economic, cultural, information, transportation, financial and commercial center. Hefei City has formed pillar industries, including automobiles, electronic equipment, electronic information, photovoltaics as well as new energy industry, developing a solid foundation for economic development. Hefei City's economy has demonstrated a fast growth trend over the past years. Benefiting from the ongoing development of its pillar industries, Hefei City's GRP increased by 5.8% year-on-year ("YoY") to RMB1.3 trillion in 2023, ranking 10th among provincial capitals and 20th among municipalities and prefecture-level cities in China, respectively. Hefei Municipal Government maintains a stable fiscal strength. The general budgetary revenue of

Hefei City increased to RMB93.0 billion in 2023 from RMB90.9 billion in 2022, representing a 2.2% YoY growth rate. It also has good fiscal stability with tax income contributing to over 70% of the general budgetary revenue over the past three years. As the end of 2023, the outstanding direct government debt balance of Hefei Municipal Government amounted to RMB225.9 billion, accounting for 12.5% of its GRP for that year.

Exhibit 4. Key Economic and Fiscal Indicators of Hefei City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,141.3	1,201.3	1,267.4
GRP Growth (%)	9.2	3.5	5.8
General Budgetary Revenue (RMB billion)	84.4	90.9	93.0
General Budgetary Expenditure (RMB billion)	122.4	138.0	141.1
Local Government Debt (RMB billion)	150.1	190.3	225.9

Source: Statistic Bureau of Hefei City, CCXAP research

Lujiang County is located in central part of Anhui Province and the south of Hefei City. With the advantage of convenient transportation, Lujiang County has a total area of 2,343.7 square kilometers, governing 17 towns and 1 provincial-level economic development zone (Lujiang High tech Industrial Development Zone). According to the Ranking of China's Top 100 Counties in terms of development potential released by The Yicheng Economic Consulting Center, Lujiang County ranks 50th in 2023, listed among the top 100 counties in the country for 6 consecutive years. With advantageous resources in mineral and tourism, Lujiang County has developed four leading industries, including food processing and manufacturing, mineral mining and deep processing, magnetic materials and electronics, and mechanical and automotive parts manufacturing. Because of rapid industrial economic development, Lujiang County achieved fast economic growth in recent years. From 2021 to 2023, Lujiang County's GRP increased from RMB54.7 billion to RMB63.4 billion, ranking the 6th among 59 county-level cities in Anhui Province. With the ongoing development of the regional economy, Lujiang County's fiscal income has also increased. From 2021 to 2023, its general budgetary revenue increased from RMB2.4 billion to RMB3.3 billion with a CAGR of 11.2%. It also has good fiscal stability with tax income contributing to over 70% of the general budgetary revenue over the past three years. However, its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 36.1% in 2023, which was at a relatively weak level. During the same period, Lujiang County had an outstanding direct government debt balance of RMB13.9 billion, accounting for 21.9% of the Lujiang County's GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Lujiang County

	2021FY	2022FY	2023FY
GRP (RMB billion)	54.7	60.1	63.4
GRP Growth (%)	6.0	7.8	5.9
General Budgetary Revenue (RMB billion)	2.4	2.6	3.3
General Budgetary Expenditure (RMB billion)	7.5	8.1	9.0
Local Government Debt (RMB billion)	10.6	12.5	13.9

Source: Statistic Bureau of Lujiang County, CCXAP research

Established by the Lujiang County Government in 2021, Helu Industrial New City is located in the northern part of Lujiang County, with a planned construction land area of about 32 square kilometers and a total planned population of 200 thousand people. Helu Industrial New City undertakes the industrial transfer from the main urban area of Hefei City, developing three leading industries, including biopharmaceuticals, new energy and new materials, and high-end equipment manufacturing, as well as two characteristic industries of smart

agriculture and organic food. Since the establishment of Helu Industrial New City, investment attraction has shown a good momentum. At end-2023, a total of 36 signed projects had been signed, with an agreed investment of over RMB28.4 billion. Helu Industrial New City's general budgetary revenue amounted to RMB98.7 million in 2023. We believe the population agglomeration effect formed along with the continuous improvement of related industrial chains will promote the further development of the Helu Industrial New City.

Government's Willingness to Provide Support

Important infrastructure construction platform in Lujiang County and the sole regional developer in Helu Industrial New City

Apart from the Company, there are other four key LIIFCs in Lujiang County, which are Lujiang Kangjiang Construction Investment Co., Ltd. ("KJCI"), Lujiang County Rural Revitalization Investment Co., Ltd. ("LJRI"), Lujiang County Industrial Investment Co., Ltd. ("LJII") and Lujiang High tech Investment and Construction Co., Ltd. ("LJHI"), each with clear positioning in the development of the region. KJCI is the largest and most important infrastructure construction entity in Lujiang County, mainly responsible for urban infrastructure construction and resettlement housing construction while LJRI undertakes the construction of infrastructure and resettlement housing in the rural area. LJII is mainly responsible for construction of standardized factories and LJHI takes charge of infrastructure construction in Lujiang High-tech Industrial Development Zone.

As one of the key infrastructure construction entities in Lujiang County and the sole infrastructure construction entity in Helu Industrial New City, HLIC plays a vital role in public policy businesses in the region, undertaking the construction of infrastructure, municipal roads, resettlement housing, technology parks in Helu Industrial New City with strong regional franchise advantages, which provide significant strategic importance for the local government and benefits to the local social and economic development. Considering its strategic importance in Lujiang County and Helu Industrial New City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good sustainability of public policy businesses

As the sole infrastructure construction entity in Helu Industrial New City, HLIC's infrastructure construction projects are crucial to local social and economic development, especially to local industrial development. The Company has sufficient construction projects in the pipelines, ensuring its sustainability of public policy businesses but exerting certain capital expenditure pressure.

The Company conducts infrastructure construction business mainly through an agency construction model. As the end of 2023, the Company had 12 infrastructure construction projects under construction, with a total planned investment of RMB9.0 billion and an uninvested amount of RMB4.1 billion. Furthermore, the Company had 2 projects under planning with a total planned investment of RMB1.4 billion. Although the initial investment amount is relatively large, funds from special government bonds can alleviate part of the capital pressure. We believe HLIC's infrastructure construction business is sustainable given its large project reserves. However, the capital needs from the projects also exert certain capital expenditure pressure to the Company.

Low but rising exposure to commercial activities

We consider HLIC's commercial business exposure to be low, as its market-driven businesses accounted for below 10% of its total assets as the end of 2023, mainly due to insufficient business diversification as a result of its new establishment. HLIC engages in industrial investment, property leasing, and park operation in addition to its public activities. These activities have been a good supplement to the Company's revenue but could exert

certain funding and business risks. We expect the Company's exposure to commercial activities will continue to rise following its increasing investment in self-operated projects in the future.

HLIC engages in industrial investment business in the form of limited partnership ("LP") by its own funds to introduce high-quality emerging industries and promote the development of industrial chain in Helu Industrial New City and Lujiang County. The Company will exit the funds by ways of IPO listing, mergers and acquisitions, and partnership agreements with invested enterprises. As of 31 December 2023, the Company had invested in 3 industrial funds, which mainly focus on biomedical and new materials industries, with a total planned contribution of RMB1.3 billion and an uncontributed amount of RMB0.8 billion. So far there has been no investment return from project exiting because these projects are still in the early stages of investment. However, as the investment cycle is long and the dividend income is susceptible to the policies and market condition, there is uncertainty in the investment return.

The Company is also involved in the property leasing business and is responsible for leasing of resettlement housing and industrial parks, which aims to promote local industry and improve people's livelihood. In addition, the Company also provides park operation services within Helu Industrial New City. However, the small operating scale limits their contribution to the Company's overall income. Meanwhile, the Company is undertaking several self-operated construction projects, including cultural tourism projects and technology park projects. After these projects are completed, the Company generates profits from property leasing and operations for fund balance. As the end of 2023, the Company had 4 self-operated projects under construction or planning, with a total planned investment of RMB720.0 million and an outstanding amount of RMB341.0 million. Meanwhile, the Company had 4 self-operated projects under planning with a total estimated investment of RMB4.7 billion. However, since these self-construction projects are highly subject to local industrial development and the progress of investment attraction, which may bring greater operational uncertainties and financial risks to this business.

Solid track record of receiving certain government support

HLIC has received recurring financial support, including financial subsidies, asset and capital injection from the Lujiang County Government to carry out its public mandates. From 2021 to 2023, the Company received capital injection of RMB1.7 billion in total from the Lujiang County Government, substantially enhancing HLIC's capital strength. The local government also transferred land-use rights and properties with total value of about RMB2.1 billion in 2022 and fixed assets of about RMB50.1 million in 2023 to the Company without compensation, enhancing its capital strength and broaden its business scope. From 2021 to 2023, the Company received government subsidies of RMB90.0 million, which support its future investments and debt repayments. Given HLIC's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

Rapid debt growth driven by large investment needs

Because large capital expenditure has been incurred from construction projects since its establishment in 2021, HLIC's total debt has grown rapidly. The Company's total debt had increased from RMB0.7 billion at end-2021 to RMB4.2 billion at end-2023, with a relatively high total capitalization ratio of 48.2%. In addition, as the end of 2023, its short-term debt accounted for about 10.6% of its total debt, and cash to short-term debt ratio was 1.0x, indicating manageable debt servicing pressure in the short term. However, the Company's investment needs for infrastructure construction and self-operated projects are expected to maintain at a relatively high level and relatively slow project repayments schedule cannot fully meet the subsequent investment demand. Therefore, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

Weak asset liquidity

In addition, HLIC has weak asset liquidity. The Company's total asset mainly consists of inventories and account receivables, which accounted for 83.5% of its total assets at end-2023. Inventories were mainly investment costs for infrastructure construction projects and land-use rights received from the local government, while receivables were mainly unreceived payments from the government agencies or other state-owned companies, all of which are considered low liquidity.

Moderate access to funding channels with limited financial flexibility

The Company shows moderate access to funding as it mainly relies on bank loans. As of 31 March 2024, more than 95% of the Company's debt financing was provided by domestic banks with total credit facilities of RMB11.9 billion and available credit facilities of RMB6.8 billion, which may partially mitigate the liquidity risk. Meanwhile, the Company's exposure to non-standard financing is low, accounting for below 5% of total debt at end-2023. Given the Company's limited available credit facilities and relatively large outstanding investment needs on its infrastructure construction projects, we consider additional funding channel is needed, such as onshore and offshore debt capital market and increasing its credit facilities, to fulfil its large capital expenditure.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. HLIC assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

HLIC is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Lujiang County. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. HLIC believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Structural considerations

HLIC's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its key roles in the development of Lujiang County and Helu Industrial New City, 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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