

Credit Opinion

15 August 2024

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

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Xuancheng High-tech Investment Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Xuancheng High-tech Investment Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Xuancheng High-tech Investment Development Group Co., Ltd. ("XCHT" or the "Company") reflects the local government's (1) strong capacity to provide support based on our assessment; and (2) very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Xuancheng City's 1st ranking status in GRP and Xuancheng High-tech Industrial Development Zone ("Xuancheng HIDZ")'s status as a provincial high-tech economic zone in Xuancheng City with rapid economic development and good industrial output, which provides a good operation environment for the Company.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) dominant role as the most important local infrastructure investment and financing company ("LIIFC") in Xuancheng HIDZ; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) rapid debt growth and weak asset liquidity; and (3) medium contingent liabilities risk.

The stable outlook on XCHT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its dominant role in the high-tech industrial development of Xuanzhou District and Xuancheng City over the next 12-18 months.

Rating Drivers

- Dominant role as the most important LIIFC in Xuancheng HIDZ
- Medium exposure to commercial activities
- Good track record of receiving government support
- Rapid debt growth and weak asset liquidity
- Good access to bank borrowing
- Medium contingent liabilities risk

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) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky commercial activities.

Key Indicators

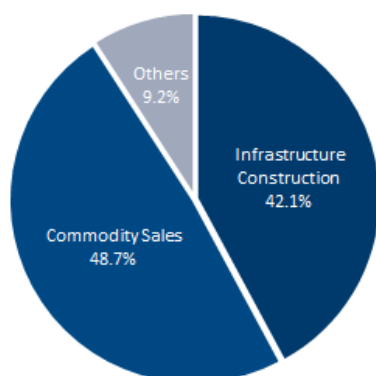
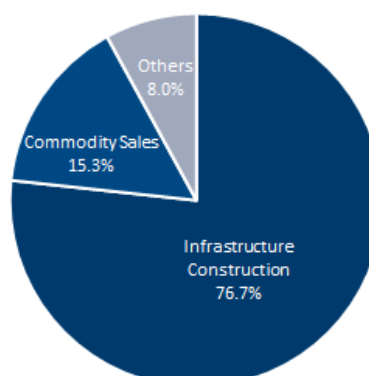
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	6.7	8.9	11.3	11.6
Total Equity (RMB billion)	3.9	4.5	5.4	5.3
Total Revenue (RMB million)	697.7	671.9	733.4	92.9
Total Debt/Total Capital (%)	39.9	45.9	49.6	52.4

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

Source: Company information, CCXAP research

Corporate Profile

Established in 2019, XCHT is the most important LIIFC in Xuancheng HIDZ, which plays an extremely important role to promote the development of local high-tech industries. XCHT is mainly responsible for the infrastructure construction in Xuancheng HIDZ. The Company also participates in different commercial activities, such as commodity trading, industrial parks construction and operation, property leasing, as well as green engineering. As of 31 March 2024, XCHT was wholly owned and controlled by the Management Committee of Xuancheng HIDZ.

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

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has a relatively strong capacity to provide support given Xuancheng HIDZ's status as the provincial high-tech economic zone in Xuancheng City with rapid economic development and good industrial output, which provide a good operation environment for the Company.

Located in the southeastern part of Anhui Province, Xuancheng City is one of the cities of the Yangtze River Delta urban agglomeration and one of the cities in the demonstration zone for industrial transfer of Wanjiang River City Belt. Following years of industrial development and advancement, Xuancheng City has cultivated 2 pillar industries, which are new energy industry and auto parts industry, along with three competitive sectors, namely the electronic information industry, high-end equipment manufacturing industry, and new materials and fine chemical industry. Due to the ongoing enhancement of transportation infrastructure and the continual refinement of industrial structure, Xuancheng City is experiencing good economic growth in the recent years. Its GRP has increased to RMB195.2 billion in 2023 from RMB191.4 billion in 2022. Its economic growth rate outperformed both the national and provincial averages over the past three years. The general budgetary revenue of Xuancheng Municipal Government also increased to RMB19.8 billion in 2023 from RMB18.9 billion in 2022. However, the fiscal balance and stability of Xuancheng Municipal Government still remained moderate. In 2023, the fiscal balance ratio (calculated by general budgetary revenue/general budgetary expenditure) was 53.8% and the fiscal stability ratio (calculated by tax revenue/general budgetary revenue) was 63.8%. Xuancheng Municipal Government's debt profile is relatively weak. As of end-2023, its government debt balance amounted to RMB67.7 billion, accounting for 34.7% of GRP and 149.7% of its total fiscal revenue.

Exhibit 3. Key economic and fiscal indicators of Xuancheng City

	2021FY	2022FY	2023FY
GRP (RMB billion)	183.4	191.4	195.2
GRP Growth (%)	10.1	4.2	5.9
General Budgetary Revenue (RMB billion)	18.3	18.9	19.8
General Budgetary Expenditure (RMB billion)	31.5	34.6	36.8
Local Government Debt (RMB billion)	53.6	60.2	67.7

Source: Statistics of Bureau of Xuancheng City, CCXAP research

Xuanzhou District, the sole district under the jurisdiction of Xuancheng City, boasts the highest population among all districts and counties within the city. It administers two provincial-level development zones, including the High-Tech Zone and the Economic Development Zone. In 2023, Xuanzhou District's GRP amounted to RMB53.2 billion, ranking the 1st among all districts/counties in Xuancheng City. The YoY growth rate of its GRP increased to 7.4% in 2023 compared with 2.7% in 2022. Xuanzhou District Government's general budgetary revenue remained stable over the past year, with RMB3.4 billion in 2023. However, its fiscal metrics still remained moderate in 2023. Its fiscal balance ratio was 51.8% and stability ratio was around 61.1%. As of 31 December 2023, the outstanding debt of Xuanzhou District Government was RMB6.2 billion, accounting for 11.6% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Xuanzhou District

	2021FY	2022FY	2023FY
GRP (RMB billion)	50.2	51.9	53.2
GRP Growth (%)	9.0	2.7	7.4
General Budgetary Revenue (RMB billion)	3.2	3.4	3.4
General Budgetary Expenditure (RMB billion)	5.2	6.1	6.5
Local Government Debt (RMB billion)	4.3	5.0	6.2

Source: Statistics of Bureau of Xuanzhou District, CCXAP research

Xuancheng HIDZ is a functional zone located in the north part of Xuanzhou District with planned area of around 27.5 square kilometers. As a provincial high-tech zone, it holds a pivotal strategic position in Xuancheng City's strategic plan for advancing and enhancing high-tech industries. It has developed 3 pillar industries which are new materials, biomedicine, as well as the intelligent manufacturing industry. There are large industrial enterprises with growth potential established in Xuancheng HIDZ, such as Luxshare Precision Industry Co., Ltd., Ningbo Menovo Pharmaceutical Co., Ltd., and Anhui Shenlanhua Color Co., Ltd. In 2023, the total industrial output from enterprises above designated size in Xuancheng HIDZ increased by 5.3% YoY. Xuancheng HIDZ will concentrate on the development of five key areas in the future, including the Southern Business District, Industrial Agglomeration Area, Chemical Industry Park, Intelligent Manufacturing Industrial Park, and Development Zone Wharf Phase I.

Government's Willingness to Provide Support

Dominant role as the most important LIIFC in Xuancheng HIDZ

As the sole LIIFC under the Management Committee of Xuancheng HIDZ, XCHT plays a dominant role in the development, construction, and operation of Xuancheng HIDZ. Authorized by the local government, the Company is responsible for the infrastructure construction in Xuancheng HIDZ including municipal utility projects. Furthermore, XCHT is also involved in property development and leasing business in the district, such as factories, office buildings, and talent apartments, aiming to create an attractive environment for investment in Xuancheng HIDZ.

XCHT implements a variety of infrastructure construction projects, such as roads, green spaces, and municipal projects within Xuancheng HIDZ, which significantly benefits people's livelihood and promotes the urbanization development in the district. Since 2015, the Company has adopted the agent construction model to undertake infrastructure construction projects, some of which are supported by government special funds. As of 31 December 2023, the Company had 4 key projects under construction, with a total planned investment of RMB471.8 million and uninvested amount of RMB236.0 million. However, there are no projects under planning. The Company is expected to undertake the infrastructure construction along with the development progress of

Xuancheng HIDZ. However, the sustainability of the Company's construction agency business is uncertain due to the absence of planned projects, leading to some uncertainty regarding the scale of future income.

The Company owns certain amount of state-owned land assets available for sale. In 2021, the Company sold land with an area of 250.5 mu, achieving land sales revenue of RMB31 million. There was no land sales revenue realized in 2022 and 2023. As of the end of 2023, the Company's land available for trading had a book value of RMB406 million. Considering that the Company's land sales are primarily with government departments and are susceptible to factors such as government development plans and the Company's land transaction plans, there is significant uncertainty regarding the future scale of land transactions and the timing of revenue realization.

Medium exposure to commercial activities

XCHT participates in different commercial activities, mainly including commodity trading and property leasing. XCHT's exposure to commercial activities is medium with the assets of commercial activities accounting for around 30% of total assets. The self-operated projects have exerted high capital expenditure pressure to the Company.

The Company engages in property leasing by leasing self-operated standardized factories and apartments to high-quality enterprises within Xuancheng HIDZ. As of 31 December 2023, the total leasable area was 257.5 thousand square meters, with full occupancy. In 2023, the Company generated rental income of about RMB19 million, with high gross profit margin of 30%. In order to align with the investment attraction plan of Xuancheng HIDZ, the Company has increased its investments in self-operated project construction in recent years. As of 31 December 2023, the Company had 10 self-operated projects under construction, with a total planned investment of RMB4.4 billion and an uninvested amount of RMB2.6 billion, demonstrating certain capital expenditure pressure. The Company will achieve fund balance through leasing or selling these projects after the completion of construction. However, given that the progress of leasing and sales is greatly influenced by market demand, there exists a certain level of uncertainty regarding the future income generated from the Company's self-operated projects.

Besides, the Company's commodity trading business mainly includes aluminum rods, cement and concrete. This business provides a significant supplementary income for the Company, accounting for 48.7% of its total revenue. The Company adopts a supply chain financing model to help enterprises settled in Xuancheng HIDZ to purchase raw materials in a centralized manner, which may expose the Company to credit contagion risk. The main customers are the private enterprises in Xuancheng HIDZ.

Rapid debt growth and weak asset liquidity

Driven by investment in infrastructure construction and self-operated projects, XCHT's total debt has grown rapidly. The Company's total debt had increased to RMB5.8 billion as of 31 March 2024 from RMB3.8 billion as the end of 2022. Meanwhile, its capitalization ratio increased from 45.9% to 52.4%. In addition, as of end-2023, its short-term debt accounted for about 22.8% of its total debt. Considering the Company's large capital expenditure needs for its extensive construction projects in the pipeline, we expect it will rely on external financing for its financing needs and thus maintain a relatively fast debt growth for the next 12-18 months.

In addition, XCHT's asset liquidity is weak, which may undermine the Company's financial flexibility. As of 31 March 2024, its assets were primarily composed of inventories, receivables, and construction in progress, totally accounting for about 78% of total assets. Inventories and construction in progress are mainly development costs

for infrastructure construction and self-operated projects, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

Good track record of receiving government support

The Company has a good track record of receiving support from the local government in the form of project payments, capital contributions, cash and asset injections, and fiscal subsidies to support its investments and operation of its businesses. From 2021 to 2023, the Management Committee of Xuancheng HIDZ supported the Company by injecting properties and capital, cumulatively increasing the Company's capital reserve by RMB669 million and its paid-in capital by RMB485 million, which effectively enhanced the Company's capital strength. In the same period, the local government provided operating subsidies of about RMB663 million to the Company. Considering XCHT's strategic importance in promoting the development of Xuancheng HIDZ, we expect that the Company will receive support from the local government as needed.

Good access to bank borrowing

XCHT mainly relies on bank loans and bond issuances for funding, which account for the majority of total debt. The Company maintains good relationships with large domestic banks such as China Construction Bank Corporation and China Development Bank. As of 31 December 2023, the Company had total credit facilities of RMB9.8 billion, with the available portion being RMB4.6 billion, indicating sufficient standby liquidity. Besides, in May 2024, the Company had issued a private placement note in the onshore bond market, raising RMB500 million. Meanwhile, the Company had a manageable exposure to non-standard financing, which accounted for less than 10% of total debt as of the end-of 2023.

Medium contingent liabilities risk from external guarantees to local state-owned enterprises

The Company bears moderate contingent risk resulting from its external guarantees. As of 31 December 2023, the Company's external guarantees amounted to RMB1.3 billion, accounting for 24.0% of its net assets. The external guarantees are mainly provided to the state-owned enterprises ("SOEs") in Xuancheng City and Xuanzhou District. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks. However, we estimate most of these local SOEs are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable.

ESG Considerations

XCHT faces environmental risks because it has undertaken major infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it implements public policy initiatives by building public infrastructure and industrial parks in Xuancheng HIDZ. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

XCHT's governance considerations are also material as the Company is subject to oversight by Xuancheng High-tech Management Committee and has to meet several 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 \(July 2022\)](#).

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