

Credit Opinion

12 September 2024

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

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Hunan Miluo River Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Hunan Miluo River Holding Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Hunan Miluo River Holding Group Co., Ltd ("MRHG" or the "Company") reflects Miluo City Government's (1) relatively strong capacity to provide support; and (2) extremely 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 Miluo City's economic importance in Yueyang City with ongoing fiscal growth, but constrained by its weak fiscal self-sufficiency.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the most important infrastructure construction entity in Miluo City; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; (2) increasing debt leverage due to large project investments; and (3) medium exposure to external guarantees.

The stable outlook on MRHG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strong position in infrastructure construction of Miluo City.

Rating Drivers

- Most important infrastructure construction entity in Miluo City
- Moderate exposure to commercial activities
- Good track record of receiving government support
- Increasing debt leverage due to large project investments
- Access to bank and bond funding channels
- Medium exposure to external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management or decrease in exposure to external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or material increase in exposure to external guarantee.

Key Indicators

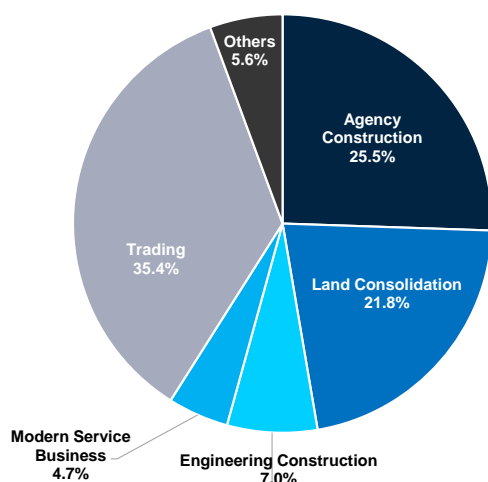
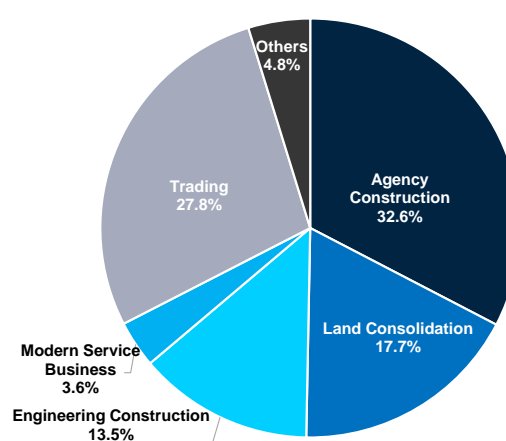
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	28.2	31.7	35.3	35.5
Total Equity (RMB billion)	15.1	17.8	18.7	18.8
Total Revenue (RMB billion)	2.8	3.1	4.2	0.8
Total Debt/Total Capital (%)	38.3	37.7	41.5	42.5

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

Source: Company data, CCXAP research

Corporate Profile

Founded in November 2017, MRHG is the most important local infrastructure investment and financing companies ("LIIFC") in Miluo City. The Company is mainly engaged in the local infrastructure construction, land consolidation, and state-owned asset management in Miluo City. It has also participated in other commercial activities such as engineering construction, sandstone mining and sale, logistics, building materials trading, and modern service business. As of 31 March 2024, the Company was wholly owned and ultimately controlled by Miluo State-owned Assets Service Center.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Miluo City Government has a relatively strong capacity to provide support, given its economic importance in Yueyang City with ongoing fiscal growth, but constrained by its weak fiscal self-sufficiency.

Located in the central part of China, Hunan Province serves as important grain production base, energy and raw material base, modern equipment manufacturing and high-tech industrial base and comprehensive transportation hub in China. With the good transportation and resource advantages, Hunan Province's economic strength improved with general regional product ("GRP") increasing from RMB4.9 trillion to RMB5.0 trillion from 2022 to 2023, ranking 9th among all provinces in China and the third among 6 provinces in central China. Its general public budget revenue increased to RMB336.1 billion in 2023 from RMB310.2 billion in 2022, with tax revenue accounting for 65.7% of its general public budget revenue. In 2024H1, Hunan Province has achieved GRP of RMB2.5 trillion and general public budget revenue of RMB186.7 billion.

Located in the northeastern part of Hunan Province, Yueyang City is a node city in the national Yangtze River Economic Belt and the urban agglomeration in the middle reaches of the Yangtze River. It has superior location advantages and convenient transportation. It is also the international shipping center and the largest international container port and direct shipping port in Hunan Province. Yueyang City is an important petrochemical, papermaking, and electric power energy base. Benefiting from its industrial development and enhancing industrial structure, Yueyang City's GRP increased from RMB471.1 billion in 2022 to RMB484.2 billion in 2023, ranking second after Changsha City among all prefecture-level cities in Hunan Province. With ongoing economic growth, the general budgetary revenue of Yueyang City also increased from RMB18.5 billion in 2022 to RMB20.0 billion in 2023. However, Yueyang City has weak fiscal self-sufficiency, as reflected by its average fiscal balance ratio of around 30% over the past three years. At the end of 2023, Yueyang City's local government debt balance was RMB109.9 billion, accounting for 22.7% of GRP. In 2024H1, Yueyang City has achieved GRP of RMB225.7 billion and general public budget revenue of RMB10.7 billion.

Exhibit 3. Key Economic and Fiscal Indicators of Yueyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	440.3	471.1	484.2
GRP Growth (%)	8.1	5.4	4.6
General Budgetary Revenue (RMB billion)	17.1	18.5	20.0
General Budgetary Expenditure (RMB billion)	54.8	55.7	63.2
Local Government Debt (RMB billion)	79.5	92.3	109.9

Source: Statistics Bureau of Yueyang City, CCXAP research

Located in the northeast of Hunan Province, Miluo City is a county-level city under the jurisdiction of Yueyang City, covering a total area of 1,562 square kilometers. Miluo City is a famous dragon boat city in China. Affected by the slowdown of industrial investment, its GRP decreased from RMB49.1 billion in 2022 to RMB46.3 billion in 2023, but still ranking 2nd among the districts/counties in Yueyang City. Miluo City will continuously increase investment in tertiary industry represented by modern logistics, cultural tourism and commerce. Its general budgetary revenue increased from RMB1.5 billion in 2022 to RMB1.6 billion in 2023, with tax revenue accounting for a relatively high proportion. It has moderate fiscal stability, with tax revenue accounting for around 77% of its general public budget revenue on average over the past three years. However, Miluo City has relatively weak fiscal self-sufficiency, with fiscal self-sufficiency ratio of 32.3% in 2023. In addition, Miluo City Government has outstanding government debt of RMB9.7 billion at end-2023, accounting for 21.0% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Miluo City

	2021FY	2022FY	2023FY
GRP (RMB billion)	46.4	49.1	46.3
GRP Growth (%)	8.1	6.0	-1.8
General Budgetary Revenue (RMB billion)	1.2	1.5	1.6
General Budgetary Expenditure (RMB billion)	4.4	4.4	4.9
Local Government Debt (RMB billion)	6.7	8.2	9.7

Source: Statistics Bureau of Miluo City, CCXAP research

Government's Willingness to Provide Support**Most important infrastructure construction entity in Miluo City**

There are two key LIIFCs in Miluo City, MRHG and Miluo City Cultural Tourism Group Co., Ltd ("MCTG"), each with clear positioning in the region. MCTG is mainly responsible for cultural tourism development in Miluo City. As the most important LIIFC with the largest assets size in Miluo City, the Company primarily focuses on local infrastructure construction, land consolidation, and other public policy business in the region. The Company has undertaken the majority of infrastructure construction projects in Miluo City, making substantial contributions to both the local economic and social development. Considering its status as the most important infrastructure construction entity in Miluo City, we believe that the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Entrusted by the local government, MRHG's core subsidiary, Hunan Chuzhisheng Holding Industrial Group Co., Ltd ("CHIG"), undertakes large amounts of agency construction projects. As of 31 March 2024, the Company had completed 14 agency construction projects, with total investment of RMB2.5 billion and total received government payments of RMB1.1 billion. Besides, the Company had 10 infrastructure construction projects under construction, with total estimated investment of RMB5.1 billion and uninvested amount of around RMB1.8

billion. At the same time, the Company had 3 infrastructure construction projects under planning, with a total investment of RMB756.0 million. These projects mainly include construction of roads, hospital, and environment improvement projects. Although these project reserves guarantee the sustainability of public policy business, they also exert certain funding pressure to the Company.

Entrusted by the local government and signed contracts with related departments, MRHG is also engaged in the land consolidation in Miluo City. From 2021 to March 2024, the Company has recognized revenue of RMB1.6 billion for this business and received repayment of RMB1.3 billion. As of 31 March 2024, MRHG had 5 land consolidation projects under construction, with total investment of RMB1.3 billion and uninvested amount of RMB533.0 million. Besides, the Company had 2 land consolidation projects under planning, with total investment of RMB832.0 million. However, the land consolidation business is susceptible to regional land market and industry policies.

MRHG is the major water service provider in urban area and several rural areas of Miluo City, with strong regional competence. In 2023, the Company provided water to around 60,900 households via one water supply plant with daily water supply capacity of around 35,490 cubic meters and water pipe network of 3,480 kilometers.

Moderate exposure to commercial activities

MRHG continues to engage in commercial activities such as trading business and engineering construction business, with diversified trading products ranging from building materials to sandstone. We consider the Company's exposure to commercial activities to be moderate, accounting for around 30% of its total assets.

Building materials trading business is conducted through its subsidiary Miluo Xingsheng Commercial Co., Ltd, while sand materials trading business is conducted through its subsidiary Miluo Xiangmi Resources Development Co., Ltd. In 2023, the Company achieved revenue from trading business of RMB1.5 billion, contributing 35% of the total revenue. However, due to high amortization rate for the operating rights of river sand and gravel extraction, the gross profit margin of this business has remained low, resulting in weak profitability.

In addition, building materials business is subject to concentration risks as the Company has high reliance on its top 5 customers and suppliers. In 2023, the sales from the top five customers accounted for 93.2% of the total sales and the top five suppliers accounted for 77.0% of the total purchase.

The Company conducts engineering construction business through its subsidiary Hunan Mingsheng Construction and Development Co., Ltd., which operates building construction contracting, building renovation design and decoration, and municipal utility contracting. It conducts engineering construction projects in Miluo City through bidding market. The revenue from this sector increased from RMB224.0 million in 2022 to RMB296.0 million in 2023.

At the same time, the Company has several self-operated projects under construction, which will be leased out after completion. MRHG's self-operated projects include e-commerce logistics park, sands distribution center, water environment improvement, Changle characteristic town protection and industrial development, with total estimated investment of RMB1.7 billion as of 31 March 2024. The large investment demand leads to certain investment pressure to the Company and causes uncertainty for funding balance in the future.

Good track record of receiving government support

MRHG has regularly received support from the local government in the form of government subsidies, project

payments, capital injection, and asset transfers. In 2023, the Company had received government subsidy of RMB44.3 million for its public policy businesses. Besides, the Company received project payments for its public policy businesses, including RMB815.0 million for agent construction projects and RMB1.3 billion for land consolidation projects as of 31 March 2024. Furthermore, under the guidance of the local government, the Company has received continuous asset transfer, such as water plants, equities, and pipeline assets, significantly enhancing its regional status and capital strength. Considering its status as the most important infrastructure construction entity in Miluo City, we believe that the local government will continue to provide strong support to the Company.

Increasing debt leverage due to large project investment

MRHG's total debt leverage has continued to increase due to external financing for projects investment. The Company's total debt increased from RMB10.8 billion at end-2022 to RMB13.9 billion as of 31 March 2024, with a relatively high capitalization ratio of 42.5%. Given its continuous investment for agent construction and land consolidation projects, we expect the Company's debt burden will continue to increase in the foreseeable future. Nevertheless, the Company's debt structure has improved, as reflected by its short-term debt to total debt ratio decreased to 12.9% as of 31 March 2024 from 23.2% as of 31 December 2022.

Besides, MRHG has modest asset liquidity, which may undermine its financing flexibility. The Company's total assets mainly consist of inventories, account receivables, and advance payments, accounting for 75.2% of its total asset as of 31 March 2024. Inventories are mainly investment costs for costs of infrastructure construction and land consolidation projects, while account receivables and advance payments are mainly unreceived project payments from the local government and advance project payments to construction companies, respectively. However, repayment process is relatively prolonged, with uncertainties in subsequent project settlements and payment collections. Besides, the Company had pledged assets of RMB4.8 billion as of 31 March 2024, accounting for 13.7% of total assets.

Access to bank and bond funding channels

MRHG has access to bank and bond funding channels, with its good relationship with banks and track record of bond issuance. The Company has an approved line of credit from diversified commercial and policy banks, such as Industrial and Commercial Bank of China and Agricultural Development Bank. As of 31 March 2024, it had obtained total credit facilities of RMB9.0 billion, with available credit facilities of RMB2.4 billion. The Company also has access to onshore bond market through its subsidiary CHIG and offshore bond market through the Company. From 2023 to September 2024, the Company's subsidiary CHIG had raised RMB500.0 million via issuance of 3 private placement bonds. Besides, the Company issued offshore bond of RMB888.0 million in July 2024. In addition, the Company has low reliance on non-standard financing, accounting for 1.7% of total debt as of 31 March 2024.

Medium exposure to external guarantees

MRHG has medium exposure to external guarantees, which has constrained its credit rating. As of 31 March 2024, the Company had outstanding external guarantees of RMB6.2 billion, accounting for 33.2% of its net assets. However, we consider the Company's contingent liability risks to be manageable, as all of the external guarantees are provided to local state-owned enterprises and public institutions with counter-guarantee measures.

ESG Considerations

MRHG faces environmental risks because it has undertaken infrastructure construction and land consolidation 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.

MRHG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and water supply projects in Miluo City. 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.

MRHG's governance considerations are also material as the Company is subject to oversight by the Miluo City Government 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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