

Credit Opinion

14 November 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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Huzhou Wuxing Talent Industrial Investment & Development Group Co. Ltd.

Surveillance credit rating report

CCXAP affirms Huzhou Wuxing Talent Industrial Investment & Development Group Co. Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

The long-term credit rating of Huzhou Wuxing Talent Industrial Investment & Development Group Co. Ltd. ("WIID" or the "Company") reflects Wuxing District Government's strong capacity and very high willingness to provide support to the Company. Our assessment of Wuxing District Government's capacity to provide support reflects Wuxing District's good economic fundamentals, ranking first by gross regional product ("GRP") in Huzhou City.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) leading position in public projects and industrial park development of Wuxing District; (2) good track record of receiving government payments; and (3) good funding access with multiple financing channels.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) fast-growing debt burden with certain pressure on short-term debt repayment; and (3) medium contingent liability risk from external guarantees.

The stable outlook on WIID's rating reflects our expectation that the Wuxing District Government's capacity to provide support will be stable, and that the Company will maintain its strategic role in local infrastructure construction and land development in Wuxing District over the next 12 to 18 months.

Rating Drivers

- Leading position in public projects and industrial park development of Wuxing District
- Larger exposure to commercial activities with improving business diversification
- Good track record of receiving government payments
- Fast-growing debt burden with certain pressure on short-term debt repayment
- Moderate asset liquidity
- Multiple financing channels but dependence on non-standard financing
- Medium contingent liability risk from external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Wuxing District Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreased commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Wuxing District 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, decreased government payments, or weakened funding capabilities.

Key Indicators

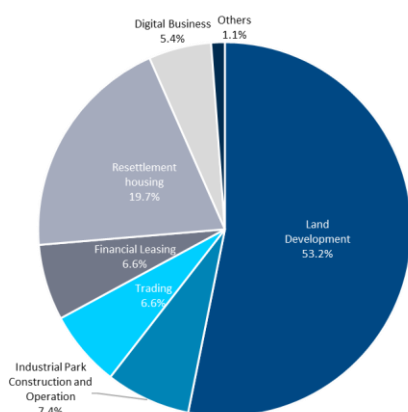
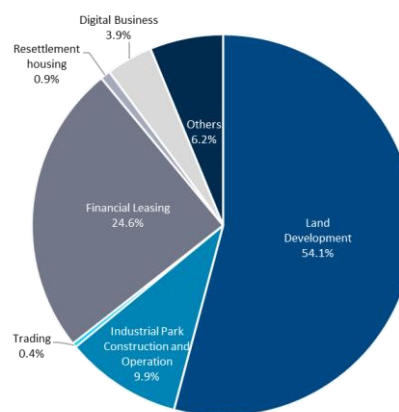
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	38.3	47.3	59.5	65.7
Total Equity (RMB billion)	14.6	17.1	21.2	22.3
Total Revenue (RMB billion)	2.7	2.4	2.2	0.6
Total Debt/Total Capital (%)	60.8	65.1	64.2	66.5

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

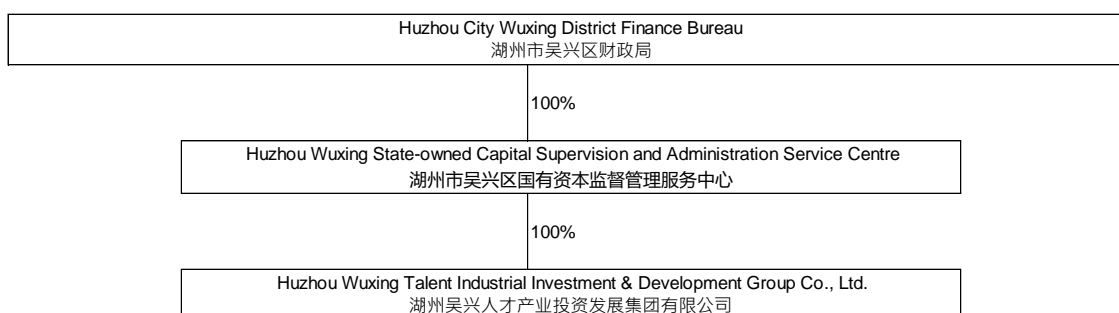
Source: Company data, CCXAP research

Corporate Profile

Established in June 2013, WIID, formerly known as Huzhou Wuxing Industrial Investment Development Group Co., Ltd., has developed into an important investment and construction platform in Wuxing District and serves as the core operating entity responsible for infrastructure construction, land consolidation and development, as well as the sale of resettlement housing. The Company also engages in commercial business such as industrial park development, industrial investment, trading, property leasing, financial leasing, photovoltaics and digital business. As of 30 June 2024, Huzhou Wuxing State-owned Capital Supervision and Administration Service Centre ("Wuxing District SCSASC") held 100% shares of WIID. The Company is ultimately governed by the Finance Bureau of Wuxing District, Huzhou City.

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government of Wuxing District has a strong capacity to provide support given Wuxing District's leadership as the first ranking in GRP in Huzhou City and the local government's moderate fiscal metrics.

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 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"). In the first half of 2024, the GRP of the Huzhou City reached RMB197.0 billion, up 6.5% 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: Statistic Bureau of Huzhou City, CCXAP research

As the central municipal district of Huzhou City, Wuxing District is located at the intersection of Shanghai Metropolitan Circle, Hangzhou Metropolitan Circle and Taihu Lake Economic Circle. A large number of large-scale headquarters gather in Wuxing District. In addition, Huzhou South Taihu High-tech Industrial Zone and Huzhou Economic and Technological Development Zone are also located in Wuxing District. The textile and garment industries are traditional pillar industries in Wuxing District, and five characteristic industrial clusters have been formed, including children's clothing, cashmere products, functional fibers, home textiles, and silk weaving. The intelligent equipment industry is one of the equipment manufacturing industries supported by Wuxing District Government, forming a complete industrial chain including equipment manufacturing, R&D and design, intelligent support, and integrated services. In 2024, Wuxing District ranked 54th among the top 100 districts across the nation in terms of comprehensive strength. At the same time, the GRP of the Wuxing District increased by 5.3% YoY to RMB92.5 billion, representing around 23.0% of Huzhou City's GRP. In the first half of 2024, the GRP of the Wuxing District reached RMB6.0 billion, up 4.9% YoY. Wuxing District Government's general budgetary revenue increased from RMB6.2 billion in 2022 to RMB6.7 billion in 2023. Wuxing District has a strong fiscal balance but a weak debt profile, with high general budgetary revenue to the general budgetary expenditure of 94.8% in 2023 and a government debt to total fiscal revenue ratio of 114.1% as of 31 December 2023.

Exhibit 5. Key economic and fiscal indicators of Wuxing District

	2021FY	2022FY	2023FY
GRP (RMB billion)	85.3	89.7	92.5
GRP Growth (%)	9.7	3.5	5.3
General Budgetary Revenue (RMB billion)	6.3	6.2	6.7
General Budgetary Expenditure (RMB billion)	5.8	6.9	7.0
Local Government Debt (RMB billion)	14.8	17.1	18.6

Source: Statistic Bureau of Wuxing District, CCXAP research

Huzhou Modern Logistics Equipment High-tech Industrial Park ("Huzhou High-tech Park") is a provincial-level high-tech zone located in the north of Zhejiang Province, with a total area of about 73 square kilometers. The three major industries include intelligent equipment, electronic information, and automobile and key parts manufacturing. Relying on the advantages of transportation and location, Huzhou High-tech Park undertakes high-quality projects from Shanghai, Suzhou and other places. In 2023, 16 projects with investment of over RMB300 million were introduced. The total industrial output value above designated size achieved RMB27.1 billion, up 12.2% YoY, and the total fixed investment achieved RMB7.8 billion, up 12.5% YoY.

Government's Willingness to Provide Support

Leading position in public projects and industrial park development of Wuxing District

There are three major local infrastructure investment and financing companies (“LIIFCs”) supporting the development of Wuxing District. WIID is one of the most important industrial investment, industrial park development and infrastructure construction platforms in Wuxing District, through largely contributing to the local infrastructures and capital attraction. With the continuous industry park development and industry attraction, the Company will also undertake the responsibility of industry park operations, including self-operating projects and talent attraction, which can contribute more revenue for WIID and secure its leading position. Given the Company’s important role in the local economic development, we expect WIID is unlikely to be replaced by other local SOEs in the foreseeable future.

WIID conducts its infrastructure construction and land development business in the Huzhou High-tech Park primarily through its core subsidiary, Huzhou Shentai Construction Development Co., Ltd. (“Shentai Construction”) under agency construction model. As of 31 December 2023, the Company had 4 infrastructure construction projects under construction, with a total planned investment of RMB1.5 billion and an uninvested amount of RMB710.5 million, and 2 infrastructure construction projects under planning with an estimated investment of RMB62.2 million. Meanwhile, the Company had 2 land consolidation projects under construction, with a total planned investment of RMB152 million and an uninvested amount of RMB16 million and 2 land consolidation projects under planning with a total investment of RMB262.2 million and a total area of 186 mu, which are expected to be completed by 2025 and 2026. We expect that sufficient project reserves can support the Company’s sustainable business development in the next 3 to 5 years. However, the income and profit from the land development business are largely susceptible to the land market conditions and government’s budget, resulting in certain delay in repayment progress. The Company had received infrastructure construction and land development project repayment of totally RMB329.4 million from 2022 to 2023, indicating slow repayment progress.

The Company is also engaged in the construction and sales of resettlement housing in Huzhou High-tech Park under government repurchase model. As of 30 June 2024, the Company had 2 resettlement housing projects under construction, with an estimated total investment of RMB 1.5 billion and an outstanding amount of RMB502 million.

We expect that the considerable projects in the pipelines can ensure the sustainability of the public policy business, but the overall project settlement cycle is generally long, and most of the funds need to be raised by the Company itself, which exerts large capital expenditure pressure on the Company.

Larger exposure to commercial activities with improving business diversification

WIID’s commercial businesses mainly include industrial park development, industrial investment, trading, financial leasing and digital business. The Company’s exposure to commercial businesses is moderate but rising as WIID is increasing its investment in self-operated projects, accounting for around 20-30% of its total assets. These activities have been a good supplement to the Company’s operating revenue but would pose the Company to higher business risks that require prudent risk control.

The Company conducts industrial park development business, engaging in the development, construction, operation and management of industrial parks, factories and offices. For construction projects, the Company sells the constructed buildings or leases the self-owned properties to obtain income accordingly. However, income from this business is subject to uncertainty due to project construction and sales progress, and future investment in industrial park projects will further increase the Company’s capital pressure. As of 30 June 2024,

the Company had 9 industrial park development projects under construction, with a total construction area of 2,753.2 thousand square meters, a total planned investment of RMB15.4 billion and uninvested amount of RMB12.8 billion. Meanwhile, the Company had 4 industrial park development projects under planning, with a total estimated investment of RMB2.4 billion as of 30 September 2024, indicating large capital expenditure pressure. The revenue from this business recorded RMB165 million in 2023, with improved profitability reflected by increasing gross profit rate of 22.4% in 2023, compared with 11.6% in 2022.

The Company is positioned to be an important industrial investment entity to promote the development of pillar industries in Wuxing District. It engages in industrial investment business by ways of fund investment and direct equity investment. As of 30 June 2024, the Company had invested in 24 industrial funds, with a total investment of RMB3.6 billion and an uninvested amount of RMB2.5 billion, which mainly focus on engineering machinery, new materials, automobiles, photovoltaics, intelligent logistics equipment and semiconductors. In addition, the Company had 13 direct equity investment projects, with a total investment of was RMB543 million. However, most of investments are at the initial investment stage which requires a long holding period, which may expose the Company to larger investment and execution risks. As of 30 June 2024, the Company exited 2 industrial funds projects with a total amount of RMB108 million and an investment return of RMB23 million.

The Company is engaged in trading cathode copper and crude lead through its subsidiaries. Affected by weak market demands, the revenue of trading business declined from RMB243.6 million in 2022 to RMB147.4 million in 2023, accounting for 6.6% of its total revenue with a low gross profit margin of around 1%. In addition, the Company's high reliance on its customers and suppliers increased uncertainties in this business. In 2023, sales of the top 5 clients and purchases from the top 5 suppliers accounted for around 95.9% and 95.8% of total sales and procurements, respectively.

In addition, according to the local government plan, the Company will be engaged in talent service business, mainly responsible for labor dispatch in Huzhou High-tech Park. The Company plans to acquire 300 acres of land to build projects related to talent service business, such as talent apartments. We expect that the government will provide strong support to the Company in terms of investment promotion and talent introduction in the future.

The Company broadened its business scope into digital business in 2022, which mainly include data processing and big data storage. The main customers are mainly government departments. The Company's digital business achieved rapid growth with revenue increasing from RMB35 million in 2022 to RMB121 million in 2023, with gross profit margins of 16.0% and 12.1%, respectively.

Overall, the Company's financial leasing, digital intelligence integration and other businesses provide effective supplements to the company's operating income and profits.

Good track record of receiving government payments

WIID has a proven track record of receiving government support in the form of capital injection, asset injection, special purpose bonds and financial subsidies. From 2022 to 2023, the Company received government subsidies of RMB1.0 billion in total. In 2023, the Wuxing District Government transferred operation rights of mineral resources of building stones with an estimated value of RMB2.9 billion and parking lots operation rights with an estimated value of RMB268 million to the Company without compensation. The Management Committee of Huzhou High-tech Park also injected advertising operation rights, sewage and rainwater pipe network assets with a total value of RMB590 million to the Company. In addition, the Company received special purpose bonds of RMB149 million from the Management Committee of Huzhou High-tech Park as capital reserve in 2023. We

expect the local government will continue to provide ongoing support to the Company, given WIID's important role in the investment and construction of Wuxing District.

Fast-growing debt burden with certain pressure on short-term debt repayment

Due to continued financing for construction projects, WIID has demonstrated high debt growth. Its total debt increased from RMB29.1 billion at end-2022 to RMB41.7 billion at mid-2024, with a total capitalization ratio of 66.5% as of 30 June 2024. In terms of debt structure, the short-term debt to total debt ratio decreased from 44.3% at end-2022 to 38.4% at mid-2024, indicating that its debt structure has improved with better debt management, but the Company still faces liquidity issues since the short-term debt burden is still very high. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.3x, indicating that its cash reserve could not fully cover the short-term debt. Given the Company's future capital expenditure pressure for its investment and construction projects, we expect the Company's debt level will continue to increase for the next 12-18 months.

Moderate asset liquidity

WIID's asset liquidity is constrained by relatively high portion of restricted assets. As of 30 June 2024, the Company had a number of restricted assets such as land and properties, with a total amount of RMB9.6 billion, accounting for around 14.7% of its total assets. In addition, at mid-2024, the Company's accounts receivables, other receivables, investment properties and inventories accounted for a relatively high proportion, totaling around 74.4% of total assets, all of which are considered low liquidity. The Company's inventories were mainly the development cost of infrastructure construction and land assets, and uncertainty exists in receivables collection, which depends on the progress of project repayment and realization of land assets. On top of that, as of 30 June 2024, the Company's investment properties accounted for around 9.9% of the total assets, providing supplementary income to the Company.

Multiple financing channels but dependence on non-standard financing

WIID has access to multiple financing channels, including bank loans and bond issuances. As of 30 June 2024, the Company had obtained a total of RMB38.5 billion in bank credit facilities, with an available amount of RMB9.5 billion, indicating a sufficient liquidity buffer. In terms of direct financing, the Company had issued 5 private notes in the onshore debt market, with an outstanding amount of RMB3.5 billion as of 30 September 2024, with a coupon rate between 2.8% and 4.4%. The Company also has an outstanding amount of USD150 million and RMB1 billion in the offshore bond market. However, the Company is highly dependent on non-standard financing, with non-standard debts of RMB10.8 billion as of 30 June 2024, accounting for 25.9% of the total debt. We consider the Company's diversified funding channel can largely fulfill its future capital expenditure.

Medium contingent liability risk from external guarantees

WIID has medium exposure to contingent liabilities. As of 30 June 2024, the Company's external guarantee amount was RMB8.2 billion, accounting for 36.9% of its net assets, increasing from 26.8% as of 30 June 2023. All of the external guarantees are provided to local state-owned enterprises in Huzhou City. The local state-owned enterprises have a strong ability to avoid liability risks, because most of these local state-owned enterprises are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable. Nevertheless, if a credit event occurs in Wuxing District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

ESG Considerations

WIID assumes environmental risks through its infrastructure construction and land development 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, WIID has played a crucial role in the social welfare of Wuxing District by being involved in resettlement housing buildings.

In terms of corporate governance, WIID'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 \(July 2022\)](#).

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