

Credit Opinion

11 December 2024

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

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Huzhou Nanxun New Town Investment Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Huzhou Nanxun New Town 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 Huzhou Nanxun New Town Investment Development Group Co., Ltd. ("NNTI" or the "Company") reflects Nanxun District Government's strong capacity to provide support, and its 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 as reflected by Nanxun District's good geographic advantage and improving economic fundamentals, as well as Nanxun Economic Development Zone ("Nanxun EDZ")'s increasing economic strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role as the primary infrastructure construction and land consolidation entity in Nanxun EDZ; (2) good access to diversified funding channels; and (3) good track record of receiving ongoing government payments.

However, the Company's rating is constrained by its (1) moderate exposure to commercial activities with relatively large capital expenditure; (2) fast-growing debt burden to support investment in construction projects; and (3) moderate asset liquidity.

The stable outlook on NNTI'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 development in Nanxun EDZ.

Rating Drivers

- Important role as the primary infrastructure construction and land consolidation entity in Nanxun EDZ
- Moderate exposure to commercial activities with relatively large capital expenditure
- Good track record of receiving ongoing government payments
- Fast-growing debt burden to support investment in construction projects
- Moderate asset liquidity
- Good access to diversified funding channels
- Medium contingent risks resulting from external guarantees

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 increase in its strategic significance; or improvement in debt management.

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 decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

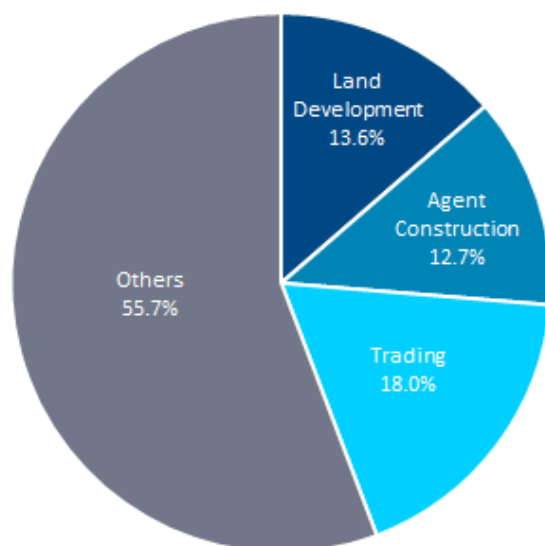
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	17.3	22.3	29.3	31.2
Total Equity (RMB billion)	8.0	9.4	11.4	11.2
Total Revenue (RMB billion)	1.1	2.2	2.4	1.4
Total Debt/Total Capital (%)	45.3	53.1	55.4	57.6

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

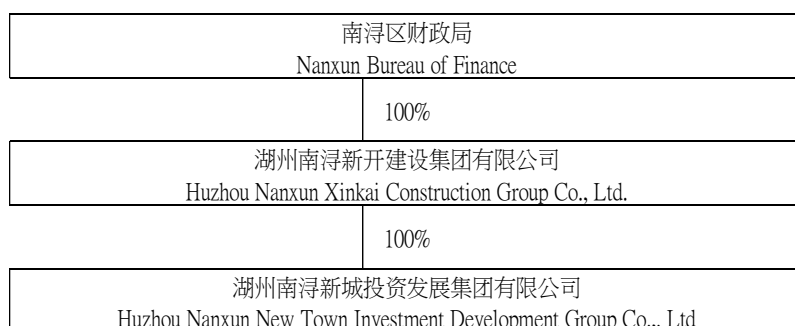
Source: Company information, CCXAP research

Corporate Profile

Established in 2018, NNTI is an important primary land consolidation and infrastructure construction entity in Nanxun Economic Development Zone ("Nanxun EDZ"). The Company has undertaken and completed a large number of urban development projects and played an important role in the development of Nanxun EDZ. It is mainly engaged in agent construction business, land consolidation and development business. In addition, the Company also conducts commercial businesses such as trading and property development. As of 30 June 2024, NNTI was wholly owned by Huzhou Nanxun Xinkai Construction Group Co., Ltd. ("Nanxun Xinkai") and is ultimately controlled by the Finance Bureau of Nanxun District.

Exhibit 1. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 2. Shareholding Chart as of 30 June 2024

Source: Company information, CCXAP research

Rating Considerations**Government Capacity to Provide Support**

We believe that Nanxun District Government has a strong capacity to provide support as reflected by Nanxun District's good geographic advantage and improving economic fundamentals, as well as Nanxun EDZ's increasing economic strength.

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"). In the first three quarter of 2024, Huzhou City's GRP achieved RMB301.0 billion, up 6.1% 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 is relatively high. At end-2023, its outstanding direct government debt amounted to RMB136.4 billion, accounting for 34.0% of its GRP and 98.6% of its total fiscal revenue.

Exhibit 3. 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. In the first three quarter of 2024, Nanxun District's GRP achieved RMB43.8 billion, up 5.8% 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 highly subject to local government planning and the land market conditions. The government funds revenue slightly increased from RMB5.1 billion in 2022 to RMB5.3 billion in 2023. The fiscal balance of Nanxun District is moderate, with a general budgetary revenue/general budgetary expenditure ratio of 62.4% 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 4. 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

Established in August 1992 and approved by the Zhejiang Government in December 1993, Nanxun EDZ is one of the first provincial-level development zones in Zhejiang province. Relying on its excellent location, the surrounding Shanghai Port, Zhapu Port, Ningbo Beilun Port and Zhangjiagang, it can facilitate the import and export trade. Nanxun EDZ has formed four characteristic leading industries including photoelectric communication, elevator, motor, and wood processing. Nanxun EDZ also receives continuous support from the Zhejiang Provincial Government and the Huzhou Municipal Government, such as the development of high-tech industries, providing support for the long-term sustainable development of NNTI.

Government Willingness to Provide Support

Important role as the primary infrastructure construction and land consolidation entity in Nanxun EDZ

The Company plays an important role in public policy businesses, such as conducting land consolidation and infrastructure construction projects in Nanxun EDZ, with strong regional franchise advantages. As the primary infrastructure construction and land consolidation platform in Nanxun EDZ, the Company has undertaken a number of infrastructure construction and land consolidation projects within Nanxun EDZ, making great contributions to the local social and economic development, benefiting investment attraction and improving related industrial chains in Nanxun EDZ. Considering its strategic importance in undertaking public policy projects in the region, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Entrusted by the local government, the Company conducts infrastructure construction business and land development business under agency construction model. The Company is entrusted with the development and construction of projects such as old city renovations, hospitals, and schools. As of 30 June 2024, the Company had completed 13 key infrastructure construction projects with a total investment of around RMB1.9 billion, confirmed revenue of RMB2 billion and received repayment of RMB1.3 billion, indicating a slow repayment progress. Moreover, the repayment is significantly influenced by the progress of settlement in completed projects. However, the Company's infrastructure construction projects have moderate sustainability as it has a small number of construction projects in the pipeline. As of 30 June 2024, it had 2 projects under construction with a total investment of RMB27.8 million and an uninvested amount of RMB4.5 million. Meanwhile, there are 3 projects under planning, with a total investment amount of RMB1.1 billion. For land development projects, as of 30 June 2024, the Company's developed land was about 4,390.2 mu, with a total invested amount of RMB4.5 billion, of which the Company had confirmed revenue of RMB1.4 billion and received repayments of RMB465.5 million. As of 30 June 2024, the Company had 2 land projects under construction, with a total planned investment of RMB1.8 billion and an outstanding amount of RMB620.0 million. However, the Company has no land development projects under planning.

Overall, the sustainability of this business is moderate, and there is uncertainty exists in the repayment as it is subject to the local government's policy planning and the regional land market conditions. Moreover, the slow progress in the settlement of repayments for the previous land development projects requires continuous monitoring of the payment collections of upcoming projects.

Moderate exposure to commercial activities with relatively large capital expenditure

NNTI also participates in commercial activities such as industrial park development, trading and property development. We estimate that the Company has moderate commercial exposure with the proportion of commercial business assets being around 20% of its total assets. These activities have been a good supplement to the Company's revenue but could exert certain funding pressure and business risks.

The Company participates in the industrial park development business in Nanxun EDZ under the self-operated model. The Company conducts sales and leasing of factories and commercial properties in accordance with the development plans of the local governments, attracting enterprises and investments for the development of Nanxun EDZ. As of 30 June 2024, the Company had 5 projects under construction with a total planned investment of RMB2 billion and an uninvested amount of RMB894.5 million and 2 projects under planning with an estimated investment of RMB729.7 million, exerting high capital expenditure pressure. Considering relatively large scale of capital expenditure as well as the slow progress of project construction, there are uncertainties

with regard to the subsequent fund balancing of these projects as it is highly subject to local industrial development and investment promotion policies.

NNTI also undertakes the commercial real estate development business in Nanxun EDZ. The Company would achieve fund balancing through selling and leasing. As of 30 June 2024, the Company had two commercial real estate projects under construction with a total planned investment of RMB2.2 billion and an uninvested amount of RMB476.6 million and 1 project under planning with an estimated investment of RMB960.7 million, exerting high capital expenditure pressure. This may expose the Company to certain business risks under the downturn of the real estate market, and increasing investment in property development may bring more operating uncertainty and financial risks to the Company.

The Company is also engaged in trading business based on a demand-driven business model, trading products mainly consisting of asphalt, asphalt mixtures, electrolytic copper, cotton yarn, and rice. Benefiting from trading products expanded into agricultural and sideline products in 2023, the Company's trading business revenue increased significantly to RMB435 million in 2023 from RMB171 million in 2022, but profitability was still weak reflected by its gross profit margin of below 1%. Besides, there is a high concentration risk regarding upstream suppliers and downstream customers as the top five suppliers accounted for 96.4% of the total procurement in 2023 and the sales from the top five customers accounted for 65.6% of the total sales in 2023. Moreover, the customers are mainly private-owned enterprises, which increases certain risks to the trading business.

Moreover, the Company is also responsible for operating other businesses such as leasing and disposal of investment properties. In 2023, there was a significant increase in revenue from other businesses, mainly due to the realization of income from the disposal of investment properties amounting to RMB1.1 billion. However, the sustainability of this business is relatively weak as there was few properties reserve left.

Good track record of receiving ongoing government payments

NNTI has a proven track record of receiving government support in the form of asset transfer, capital injection and financial subsidies. In 2023, the management Committee of Nanxun EDZ has transferred agricultural land transfer operation rights of RMB1.5 billion and parking space operation rights of RMB213 million to the Company without compensation. Furthermore, the Company received capital injection of RMB1.8 billion in cash from the local government from 2023 to 2024H1, substantially enhancing its capital strength. The local government also provided subsidies of about RMB144.4 million to support the Company's general operations during the same period. Given its role as important infrastructure construction and land development entity in Nanxun EDZ, we expect the local government will continue to support the Company in the future.

Fast-growing debt burden to support investment in construction projects

Due to continued financing for construction projects, NNTI has demonstrated high debt growth. Its total debt increased from RMB10.6 billion at end-2022 to RMB15.3 billion at mid-2024, with a total capitalization ratio of 57.6%. In terms of debt structure, the short-term debt to total debt ratio increased from 31.3% at end-2022 to 39.1% at mid-2024, indicating that the Company faces certain short-term repayment pressure. 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 its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

Moderate asset liquidity

NNTI's asset liquidity is moderate, which may undermine the Company's financing flexibility. As of 30 June 2024, the inventories, accounts receivables and other receivables accounted for 64.8% of total assets. The inventories mainly consisted of the lands and construction costs generated by construction projects, while the receivables were mainly unreceived payments from other local state-owned enterprises. Nevertheless, as of 30 June 2024, the Company's other equity instrument investments, long-term equity investments, investment properties and intangible assets accounted for around 16.9% of the total assets, which could provide supplementary income to the Company.

Good access to diversified funding channels

NNTI has diversified sources of funding including bank loans, onshore and offshore bond issuances and non-standard financing. As of 30 June 2024, around 55.8% of the Company's debt financing was provided by bank loans with total credit facilities of RMB15.1 billion, of which the unutilized amount was about RMB4.9 billion, indicating sufficient liquidity buffer. The Company also has access to debt capital markets. As of 30 November 2024, the Company had 3 onshore and 2 offshore outstanding bonds, with total outstanding amount of RMB1.6 billion and USD68.6 million, respectively. It has medium exposure to non-standard financing products which are mainly financial leasing. As of 30 June 2024, the Company's non-standard financing accounted for around 13.9% of the total debt. We consider the Company's diversified funding channel can largely fulfill its future capital expenditure.

Medium contingent risks resulting from external guarantees

NNTI has medium exposure to contingent liabilities. As of 30 June 2024, The Company's external guarantees amounted to RMB5.3 billion, accounting for 46.9% of its net assets. Although the external guarantees were large in scale, most of which were provided to local state-owned enterprises with controllable business risk. Nevertheless, in case a credit event occurs in Nanxun District, the Company may face large-scale cross-effects risks, which could negatively impact its credit quality.

ESG Considerations

NNTI assumes environmental risks through its infrastructure construction and primary 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, NNTI has played a crucial role in the social welfare of Nanxun EDZ by involving the construction of environment improvement, renovation, and other government projects.

In terms of corporate governance, NNTI'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 5. Peer Comparison

	Huzhou Nanxun New Town Investment Development Group Co. Ltd	Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd.	Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -	BBB _g -
Shareholder	Huzhou Nanxun Xinkai Construction Group Co., Ltd. (100%)	Zhejiang Xingshanghe Urban Development Group Co., Ltd. (100%)	Nanxun District Finance Bureau (75%), Huzhou Nanxun Communications Water Conservancy Investment and Construction Group Co., Ltd. (25%)
Positioning	Key LIIFC in infrastructure construction in Nanxun District, especially the Nanxun Economic Development Zone	Key LIIFC in infrastructure construction in Nanxun District, especially the Shanghai Innovation Cooperation Zone	Key LIIFC in infrastructure construction in Nanxun District, especially Lianshi Town
Total Asset (RMB billion)	29.3	18.0	16.1
Total Equity (RMB billion)	11.4	7.3	7.1
Total Revenue (RMB billion)	2.4	0.9	0.4
Total Debt/Total Capital (%)	55.4	50.8	50.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company information, CCXAP research

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