Credit Opinion

16 December 2024

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

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Iris Chen +852-2860 7132
Credit Analyst
iris_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Huaiyuan Investment Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g- long-term credit rating of Huaiyuan Investment Group Co., Ltd. ("HYIG" or the "Company") reflects (1) Huaiyuan County Government's relatively strong capacity to provide support; and (2) the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Huaiyuan County Government's capacity to provide support reflects Huaiyuan County's economic importance in Bengbu City, but constrained by its relatively weak fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong policy role in the development of Huaiyuan County; 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) increasing debt level to support investment in construction projects.

The stable outlook on HYIG's rating reflects our expectation that Huaiyuan County Government's capacity to provide support will remain stable, and that the Company will maintain its important position in the development of Huaiyuan County over the next 12 to 18 months.

Rating Drivers

- Strong policy role in the development of Huaiyuan County
- Medium exposure to commercial activities
- Good track record of receiving government support
- Increasing debt level to support investment in construction projects
- Moderate asset liquidity
- Diversified source of funding
- Certain exposure to contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Huaiyuan County Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management and reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Huaiyuan County 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 deteriorated debt management.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	64.3	79.2	84.9	85.7
Total Equity (RMB billion)	35.9	36.4	36.8	35.6
Total Revenue (RMB billion)	2.7	3.7	5.4	1.6
Total Debt/Total Capital (%)	37.7	41.2	42.5	44.6

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2018, HYIG is the largest local infrastructure investment and financing company ("LIIFCs") in Huaiyuan County. The Company is primarily engaging in diversified businesses, such as infrastructure construction, affordable housing and shantytown construction, industrial park construction, land consolidation, bridge toll operations, and commercial property. As of 30 June 2024, State-owned Assets Supervision and Administration Commission of Huaiyuan County People's Government was the ultimate controller of HYIG, directly holding 100% shares of the Company.

Exhibit 1. Revenue structure in 2023

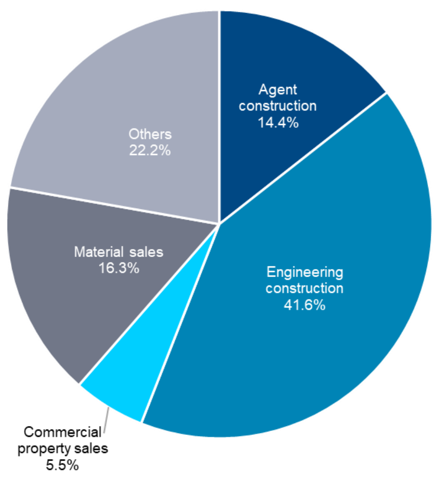
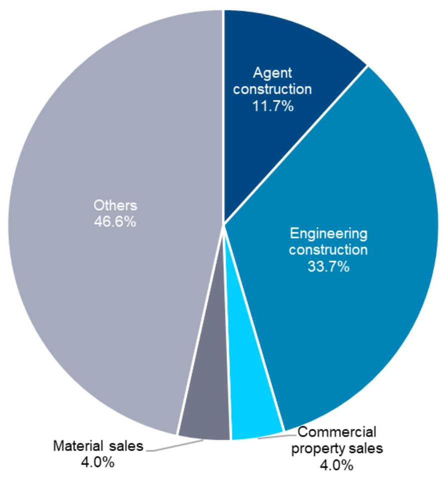


Exhibit 2. Gross profit structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Huaiyuan County Government has a relatively strong capacity to provide support to the Company, given its economic importance in Bengbu City, but is constrained by its relatively weak fiscal metrics.

Located in the northern part of Anhui Province, Bengbu City is an important comprehensive transport hub in East China. Bengbu City has a good industrial base and has actively developed emerging industries in recent years including silicon-based new materials and new generation technology. Bengbu City has a relatively good economic strength but a moderate financial situation. In 2023, Bengbu City's Gross Regional Product ("GRP") increased 5.6% year-on-year ("YoY") to RMB211.6 billion, ranking 9th among all 16 cities in Anhui Province. In the first three quarter of 2024, Bengbu City's GRP recorded RMB174.6 billion, up 4.7% YoY. At the same time, the general budgetary revenue of Bengbu Municipal Government increased from RMB17.4 billion in 2022 to RMB18.0 billion in 2023. The fiscal balance ratio of the Bengbu Municipal Government remains moderate. In 2023, the fiscal balance ratio (calculated by general budgetary revenue/general budgetary expenditure) was 48.7%. The debt profile of the Bengbu Municipal Government is relatively weak. At the end of 2023, the government debt balance increased to RMB73.9 billion, accounting for around 34.9% of GRP and around 154.9% of its total fiscal revenue.

Exhibit 3. Key economic and fiscal indicators of Bengbu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	198.9	201.2	211.6
GRP Growth (%)	-2.1	2.0	5.6
General Budgetary Revenue (RMB billion)	16.7	17.4	18.0
General Budgetary Expenditure (RMB billion)	32.9	36.0	36.9
Local Government Debt (RMB billion)	55.6	62.2	73.9

Source: Statistic Bureau of Bengbu City, CCXAP research

Huaiyuan County is located in the northern part of Anhui Province and the middle reaches of the Huai River. It is the most populous county among the districts and counties in Bengbu City. The leading industries in Huaiyuan County include machinery and auto parts manufacturing, electronic products, deep processing of agricultural and sideline products, and resource regeneration and comprehensive utilization of straw. Huaiyuan County's GRP ranked the top among all districts/counties in Bengbu City in recent years. In 2023, Huaiyuan County's GRP further increased by 7.8% YoY to RMB37.9 billion, as a result of a significantly rebound in the local industrial economy after pandemic. In the first three quarter of 2024, Bengbu City's GRP recorded RMB31.8 billion, up 4.9% YoY. Huaiyuan County Government's general budgetary revenue kept increasing to RMB2.8 billion in 2023 from RMB2.6 billion in 2022. However, Huaiyuan County has a relatively weak fiscal profile. In 2023, its fiscal balance ratio was 36.6% and stability ratio was around 56.4%, reflecting a high reliance on fiscal support from higher-tier governments. As of 31 December 2023, the outstanding debt of Huaiyuan County Government was RMB9.9 billion, accounting for 26.1% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Huaiyuan County

	2021FY	2022FY	2023FY
GRP (RMB billion)	35.6	35.7	37.9
GRP Growth (%)	-12.0	1.7	7.8
General Budgetary Revenue (RMB billion)	2.5	2.6	2.8
General Budgetary Expenditure (RMB billion)	7.0	7.8	7.7
Local Government Debt (RMB billion)	7.9	8.9	9.9

Source: Statistic Bureau of Huaiyuan County, CCXAP research

Government's Willingness to Provide Support

Strong policy role in the development of Huaiyuan County

HYIG is the largest LIIFC in Huaiyuan County in terms of total assets and plays an essential role in infrastructure construction. The Company is the major entity delegated by Huaiyuan County Government to carry out such businesses. HYIG assumes the functions of construction of affordable housing, shantytowns, industrial parks and roads in Huaiyuan County. The Company plays an important role in the economic development of Huaiyuan County by its contribution to the local infrastructures and capital attraction.

HYIG is engaged in infrastructure construction within Huaiyuan County mainly through agent construction model. Under the agent construction model, the Company signs a construction agreement with the related parties and the related parties will pay the total cost plus a few percentage markups after examining the projects. As of 30 June 2024, the Company had a total of 16 projects under construction, including urban renewal, shantytown upgrading and road construction projects with a total planned investment of RMB16.0 billion and an outstanding amount of RMB3.4 billion. Meanwhile, the Company has 6 proposed projects with a total planned investment of RMB4.3 billion including shantytown construction projects and urban renewal projects. The Company has sufficient project reserves that support good stability and sustainability of the infrastructure construction business.

HYIG is also responsible for land consolidation in Huaiyuan County. As of 30 June 2024, the Company's land consolidation business had a total of 8 projects under construction, with a total of RMB2.1 billion invested in demolition and relocation payments for major projects. However, because of the untimely settlement of projects and fluctuation of land market, there is uncertainty in the sustainability of land consolidation business in the future.

HYIG is also responsible for bridge operation business. The income from this business is mainly generated from the toll rights of Jingxu Huaihe River Bridge in Huaiyuan County. The operation period is as long as 26 years, starting from 1 January 2005 to 31 December 2030. As the Company does not charge the local vehicles, the revenue of bridge operation business is still small and under deficit. In light of its public welfare nature and the importance to local social and economic development, the bridge operation business receives operating subsidies from the local government every year.

Medium exposure to commercial activities

Apart from public activities, HYIG is also involved in a diversified range of commercial activities that contribute part of its revenue, including industrial park constructions, commercial property sales, and material sales. Nonetheless, HYIG is no longer engaging material sales business since its subsidiary, namely Anhui Huiliang International Trade Co., Ltd., which was mainly responsible for material sales business, was transferred out in 2024. Based on our estimates, the Company has medium exposure to commercial activities, which accounted for 25-30% of its total assets at mid-2024. These commercial activities may also entail higher operational and business risks than public policy activities.

HYIG's industrial parks operation business is mostly through self-construction, which aims to support local industries and supplement its income. The Company has a large investment in the construction of industrial parks, and plans to use the rent collection to recover the pre-invested funds. These self-construction projects are highly related to local industrial development and the progress of investment attraction, which may bring greater operating uncertainties to this business. At mid-2024, the Company had 6 key projects under construction, with a total planned investment of RMB7.1 billion and an outstanding amount of RMB2.2 billion; and 4 proposed projects with a total planned investment of RMB3.6 billion. Although the future investment amount is relatively large, funds from policy banks and special government bonds can alleviate part of the capital pressure.

The Company's commercial property sales mainly include the remaining marketable portion of affordable housing and the supporting commercial component. As of the end of June 2024, the total marketable area of the Company's affordable housing projects was 58.8 thousand square meters, with a remaining marketable area of 27.3 thousand square meters. At mid-2024, the Company had 1 commercial real estate project under construction with an invested amount of RMB719 million and the selling rate reached 70.9%, indicating relatively good selling progress. However, the uncertainty exists in the commercial property development business as it is highly susceptible to the real estate market, which is under a downturn period.

The material sales cover food grains, wine grains, and feed grains. The Company has both self-operated and storage business models. The revenue from material sales decreased from RMB1.2 billion in 2022 to RMB886.7 million in 2023, mainly due to the price fluctuations. In addition, the Company has relatively diversified customer and supplier sources as sales to the top 5 clients and purchases from the top 5 suppliers accounted for around 31.7% and 44.8% of total sales and procurement, respectively. The material sales business contributes a supplement to the Company's revenue, but the gross profit margin is low.

Good track record of receiving government support

As the largest LIIFC of Huaiyuan County, HYIG serves an important public policy function and is strategically important to local social and economic development. The Company has a solid track record of receiving support from the local government including capital injections, asset injections and operating subsidies. The Company received government subsidies of over RMB1.3 billion from 2022 to 2024H1. In 2021, the local government injected assets including car parking spaces, seedlings, sand mining rights and drainage and irrigation stations into the Company, enhancing its capital by RMB14.1 billion. In 2023, the local government injected equity assets of RMB26.4 million into the Company without compensation, broadening its business scope. Given the

Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

Increasing debt level to support investment in construction projects

Due to the ongoing financing for construction projects, the Company's total debt increased to RMB28.6 billion as of 30 June 2024 from RMB25.5 billion at end-2022 while its capitalization ratio increased from 41.2% to 44.6% during the same period. As of 30 June 2024, the Company had a reasonable debt structure with short-term debt accounting for 16.4% of total debt. However, the cash to short-term debt ratio was around 0.5x at mid-2024, indicating refinancing needs for its short-term debt. We expect the Company to rely on external financing to meet its capital expenditure plan and the debt burden will keep increasing in the next 12 to 18 months.

Moderate asset liquidity

HYIG's asset liquidity is considered as moderate. As of 30 June 2024, its account receivables, other receivables and inventories accounted for a relatively high proportion, totaling around 74.0% of total assets. The Company's inventories mainly include the cost of construction works, while the receivables and other receivables are mainly from the local government, all of which are considered low liquidity. At the same time, its intangible assets, mainly sand mining rights and other toll operation rights, accounted for 17.8% of total assets, which can provide supplementary income to the Company.

In addition, the Company had pledged some assets for loans, including cash, inventories, and receivables, with a total restricted amount of RMB11.4 billion, accounting for 13.4% of total assets, which decreases the Company's financial flexibility.

Diversified source of funding

HYIG's large investment needs could be partially supported by its diversified source of funding. It maintains good relationships with large state-owned banks and commercial banks. As of 30 June 2024, the Company has obtained total bank credit facilities of RMB26.2 billion, with an unutilized amount of RMB3.4 billion. The Company also has good access to both onshore and offshore capital markets. The Company and its subsidiary issued offshore bonds of USD100 million andRMB437.5 million and a series of onshore bonds of totaling RMB1.6 billion from January2024 to November 2024. The Company had relatively manageable exposure to non-standard financing as of 30 June 2024, with a proportion of less than 10% of total debt.

Certain exposure to contingent liabilities

HYIG has certain exposure to external guarantees, which could potentially increase its repayment obligations. As of 30 June 2024, the Company had external guarantees of RMB7.5 billion, accounting for 21.2% of its net assets. Most of the guarantees were provided to state-owned enterprises within Huaiyuan County, of which RMB265.6 million was for private-owned enterprises. Meanwhile, HYIG had provided guarantees to two private-owned enterprises subject to enforcement by the judgement, namely Anhui Zhetai Stainless Steel Group Co., Ltd. and Anhui Tianhong New Steel Structure Materials Co., Ltd., with a total balance on guarantee of RMB73.4 million, which could potentially increase the Company's repayment obligations. Nevertheless, we estimate most of these local SOEs are likely to be supported by the local government when necessary, and contingent risk would be controllable.

ESG Considerations

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

HYIG bears social risks in implementing public policy initiatives through the building of public infrastructure in Huaiyuan County. 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.

HYIG’s governance considerations are also material as the Company is subject to oversight by the Huaiyuan County Government and must 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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656