

Credit Opinion

30 December 2024

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

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Hengyang High-tech Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Hengyang High-tech Holding Group Co., Ltd.'s BBB_g long-term credit rating, with stable outlook

Summary

The BBB_g long-term credit rating of Hengyang High-tech Holding Group Co., Ltd. ("HHHG" or the "Company") reflects Hengyang Municipal Government's (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Hengyang Municipal Government's capacity to provide support reflects Hengyang City's ranking as the fourth largest prefecture-level city by gross regional product ("GRP") in Hunan Province, with ongoing growth in economic and fiscal strengths. In addition, Hengyang High-tech Zone ("Hengyang HTZ") is a national high-tech zone in Hunan Province approved by the State Council.

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 entity for urban infrastructure construction in Hengyang HTZ; (2) high sustainability for public policy businesses; and (3) good track of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) fast debt growth, with large capital expenditure pressure; and (3) modest asset liquidity.

The stable outlook on HHHG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its status as the most important entity for urban infrastructure construction in Hengyang HTZ.

Rating Drivers

- Most important entity for urban infrastructure construction in Hengyang HTZ
- High sustainability for public policy businesses
- Medium exposure to commercial activities
- Good track of receiving government support
- Fast debt growth, with large capital expenditure pressure
- Modest asset liquidity

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 strengthened regional significance or reduction in the exposure to commercial activities.

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 weakened access to funding.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	57.9	65.0	67.4	68.8
Total Equity (RMB billion)	24.3	27.1	27.7	27.9
Total Revenue (RMB billion)	3.2	3.4	3.6	1.6
Total Debt/Total Capital (%)	51.0	51.2	51.0	52.9

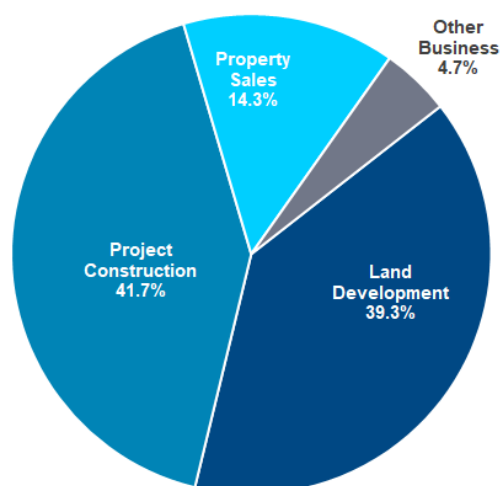
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information; CCXAP research

Corporate Profile

Established in 2015, HHHG is the most important entity for city infrastructure construction in Hengyang HTZ. The Company is mainly engaged in infrastructure construction and land development in Hengyang HTZ. It has also participated in commercial activities such as property sales and property leasing. As of 30 June 2024, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission of Hengyang City.

Exhibit 1. Revenue Structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Hengyang Municipal Government has a very strong capacity to provide support, given its ranking as the fourth largest prefecture-level city by GRP in Hunan Province, with ongoing growth in economic and fiscal strengths.

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 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. Meanwhile, Hunan Province Government has a relatively large debt burden. In 2023, Hunan Province had an outstanding direct government debt balance of RMB1.8 trillion, accounting for 36.4% of the Hunan Province's GRP. In the first nine months of 2023, the GRP of Hunan Province was RMB3.8 trillion, with a YoY growth rate of 4.5%.

Located in Hunan Province, Hengyang City has a relatively high economic importance and ranks 4th by GRP among all the prefecture-level cities in Hunan Province. In recent years, Hengyang City has formed several pillar industries including machinery, metallurgy, chemical industry, building materials, textile, food processing, etc. Benefiting from its good industrial base and sound economic development, Hengyang City's GRP increased from RMB409.0 billion in 2022 to RMB419.1 billion in 2023, with growth rate of 5.2% year-on-year ("YoY"). General budgetary revenue increased from RMB RMB19.1 billion in 2022 to RMB19.6 billion in 2023, with tax income accounting for 68.8% of its fiscal revenue in 2023. However, Hengyang has moderate fiscal-balance level, with 29.5% in 2023. At the end of 2023, Hengyang's local government debt balance was RMB133.1 billion, accounting for 31.8% of GRP. In the first nine months of 2023, the GRP of Hengyang City was RMB324.2 billion, with a YoY growth rate of 4.9%.

Exhibit 2. Key Economic and Fiscal Indicators of Hengyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	384.0	409.0	419.1
GRP Growth (%)	8.1	5.2	5.3
General Budgetary Revenue (RMB billion)	18.4	19.1	19.6
General Budgetary Expenditure (RMB billion)	56.5	61.8	66.3
Local Government Debt (RMB billion)	102.1	112.6	133.1

Source: Statistics Bureau of Hengyang City, CCXAP research

Approved by the State Council in 2012, Hengyang HTZ is national-level high-tech zone located in Hengyang City, covering an area of 137.4 square kilometers. Hengyang HTZ has formed six pillar industries including electronic information, mobile internet, intelligent equipment manufacturing, biomedicine, modern services and cultural creativity. It also has three pillar industries clusters including intelligent manufacturing, electronic information and high-tech service industry. In 2023, the GRP of Hengyang HTZ amounted to RMB28.9 billion and general budgetary revenue achieved RMB510.0 million.

Government's Willingness to Provide Support**The most important entity for urban infrastructure construction in Hengyang HTZ**

HHHG is the largest and the most important infrastructure construction entity in Hengyang HTZ, conducting land development and infrastructure construction projects in Hengyang HTZ, Baisha Industrial Park, and Hengshan Science Park. It is also one of the key infrastructure construction entities in Hengyang City, responsible for the construction of some major municipal projects. Considering that HHHG owns the most state-owned assets in the region and its status as the most important entity for urban infrastructure construction in Hengyang HTZ, we believe that the Company has the most important position in the comprehensive development of the region and will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability for public policy businesses

As the most important entity for urban infrastructure construction in Hengyang HTZ, HHHG has participated in land development and infrastructure construction businesses. There are large amounts of construction projects in the pipeline from these public policy businesses, ensuring public policy business's sustainability, but exerting high capital expenditure pressure.

The Company undertakes infrastructure construction projects under agent construction model, such as roads, resettlement housing, bridges. As of 31 December 2023, the Company had finished 9 infrastructure construction projects, with total investment amount of RMB450.3 million and received repayment amount of RMB396.7 million. Besides, HHHG had 14 infrastructure projects under construction or planning, with a total planned investment of RMB3.7 billion and an uninvested amount of RMB1.8 billion.

Entrusted by the Hengyang HTZ Management Committee, HHHG undertakes land development projects by self-raised funds. It has completed a number of projects, including land acquisition, land consolidation, and land development in Hengyang HTZ. As of 31 December 2023, HHHG had 5 land development under construction or planning, with a total planned investment of RMB11.4 billion and an uninvested amount of RMB3.1 billion, indicating high capital expenditure pressure. In addition, the business is susceptible to local land planning and construction progress.

Medium exposure to commercial activities

In addition to public activities, HHHG is also engaged in commercial businesses, mainly including property sales and property leasing. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 20% of its total assets. However, commercial risk is moderate since property sales business is greatly affected by the changes in regional property market and industry policy. Besides, property leasing business exerts capital expenditure pressure to the Company.

HHHG's property sales business mainly involves construction and sales of residential housing and commercial complexes in Hengyang HTZ. The Company still has several large projects in the pipeline, causing high financing pressure. As of 31 December 2023, the Company had invested RMB5.3 billion into 5 completed real estate projects, with sales rate of 61.2% and sales amount of RMB2.6 billion. In addition, the Company had 1 real estate project under construction, with total investment and outstanding amount of RMB6.0 billion. However, the income from property development is susceptible to regional land market, which may cause fluctuations in revenue and profit margin. In 2023, the revenue from property development amounted to RMB518.0 million, increasing by 19.1% YoY.

HHHG has leased self-owned investment properties in Hengtang HTZ, such as industrial plants and industrial parks, which can provide stable and increasing rental income to the Company. In 2023, the revenue from property leasing increased from RMB19.7 million in 2022 to RMB32.9 million. However, due to the increasing expenses and relatively low occupancy rate, the property leasing business recorded a net loss in 2023. The Company still has large amounts of self-operated projects under construction or under planning, which will be sold out or leased after the projects are completed. As of 31 December 2023, the Company had 12 self-operated projects under construction or planning, with total investment amount of RMB13.6 billion and uninvested amount of RMB10.2 billion, indicating high capital expenditure pressure.

Apart from property sales and property leasing, the Company also has some other commercial businesses like cultural advertising, airport operations, fund management. All of those businesses have relatively small size and make limited contributions to the Company's revenue.

Good track of receiving government support

HHHG has regularly received support from the local government in the form of capital injection, government subsidies and project payments. The Company has received ongoing capital injection, significantly enhancing its capital strength. From 2023 to 2024H1, the Company received capital injection of RMB521.3 million from the local government. Over the same period, the Company totally received government subsidies of about RMB1.1 billion. Furthermore, the Company also regularly receives project payments from the local government, totaling RMB1.3 billion over the same period. Given its strong market position in undertaking public policy projects in Hengyang HTZ, we believe that the local government will continue to provide support to the Company.

Fast debt growth, with large capital expenditure pressure

HHHG's total debt continues to grow due to ongoing financing for the land development and infrastructure construction projects. The Company's total debt had increased from RMB28.5 billion at end-2022 to RMB31.3 billion at mid-2024, with total capitalization increased from 51.3% to 52.9% over the same period. In addition, as of 30 June 2024, the Company's short-term debt accounted for about 22.9% of total debt, with unrestricted cash to short term debt ratio of 0.3x, indicating certain short term debt repayment pressure. Given its large

capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

Modest asset liquidity

HHHG's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, receivables, investment properties, and construction in progress, all with relatively low liquidity. The inventories and constructions in progress are development costs from land development and infrastructure construction projects, the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, and the investment properties are leasable properties, totally accounting for about 85.1% of total asset as of 30 June 2024. However, the investment properties can provide certain supplemental income to the Company. As of 30 June 2024, the Company had restricted asset of RMB16.2 billion, accounting for 23.6% of its total asset

Good access to funding

HHHG has good access to funding from banks and capital markets. The Company has an approved line of credit from both commercial banks and policy banks, such as China Everbright Bank and China Development Bank. The Company has sufficient stand-by liquidity. As of 30 June 2024, it had obtained total credit facilities of RMB25.2 billion, with available credit facilities of RMB9.4 billion. The Company and its subsidiaries also have good access to bond markets and has issued multiple bond products in onshore capital market, such as MTNs, and private corporate bonds, raising about RMB2.3 billion in 2024. Furthermore, the Company has expanded its funding channel to offshore bond market since 2024. In 2024, the Company issued 2 tranches of offshore RMB bonds with a total issuance amount of RMB674.0 million, with coupon rate of 3.15% and 5.98%. In addition, HHHG has low exposure to non-standard financing, which accounted for 5.6% of its total debts at mid-2024.

ESG Considerations

HHHG faces environmental risks because it has undertaken infrastructure construction and land development 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.

HHHG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Hengyang HTZ. 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.

HHHG's governance considerations are also material as the Company is subject to oversight by the Hengyang Municipal 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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