

Credit Opinion

31 December 2024

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

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Hunan Xiangjiang New Area Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Hunan Xiangjiang New Area Development Group Co., Ltd.'s long-term credit rating at A_g, with stable outlook.

Summary

The A_g long-term credit rating of Hunan Xiangjiang New Area Development Group Co., Ltd. ("XNDG" or the "Company") reflects Changsha Municipal Government's (1) very strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Changsha Municipal Government's capacity to provide support reflects the Changsha City's status as a provincial capital, with good economic fundamentals. As a national-level new area located in Changsha City, Xiangjiang New Area was officially recognized as the 12th National New Area in China, the first one in Central China, and the sole National New Area in Hunan Province. In 2023, the economic strength of Xiangjiang New Area ranked sixth among 19 national-level new areas in China.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) key strategic role in the development of Xiangjiang New Area; (2) good track record of receiving government support; and (3) good access to funding from banks and bond markets.

However, the rating is constrained by the Company's (1) high exposure to commercial activities; (2) high debt leverage; and (3) moderate asset liquidity.

The stable outlook on XNDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important strategic position in the development of Xiangjiang New Area.

Rating Drivers

- Key strategic role in the development of Xiangjiang New Area
- High sustainability for public policy businesses
- High exposure to commercial activities
- Good track record of receiving government support
- Moderate debt growth and asset liquidity
- Good access to funding from banks and bond markets

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 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	2024Q3
Total Asset (RMB billion)	95.9	105.9	114.8	122.1
Total Equity (RMB billion)	36.2	37.2	37.7	37.9
Total Revenue (RMB billion)	10.0	11.0	9.4	6.7
Total Debt/Total Capital (%)	52.4	54.3	58.1	61.3

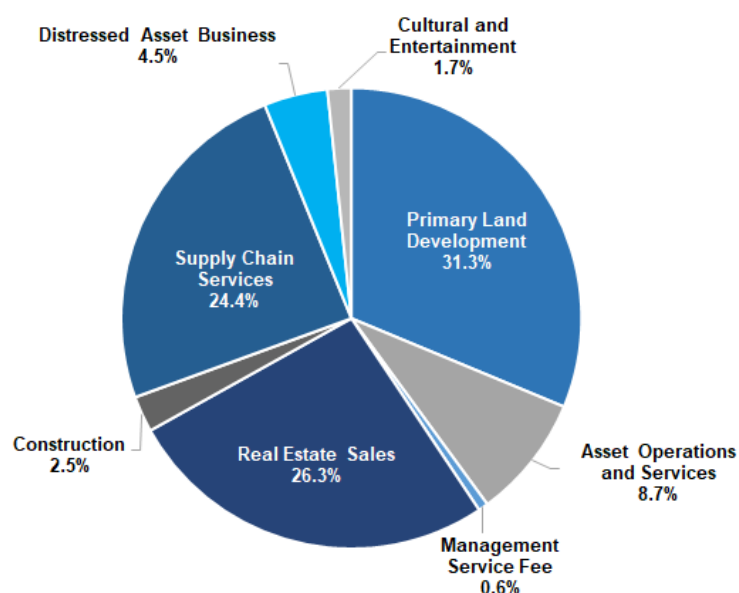
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Established in 2016, XNDG has played an important role in the development of the Xiangjiang New Area in Changsha City. The Company is mainly engaged in infrastructure construction and primary land development projects in Xiangjiang New Area. It has also participated in other commercial activities such as property management and financial services business. As of 30 September 2024, XNDG was 90% directly owned by the State-owned Assets Supervision and Administration Commission of the Changsha City Government ("Changsha SASAC"), its ultimate controlling shareholder, and 10% owned by Hunan State-owned Investment Operation Co., Ltd.

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholder structure as of 30 September 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Changsha Municipal Government has a strong capacity to provide support, given its status as a provincial capital, with good economic fundamentals.

Located in the central part of China, Hunan Province serves as an 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. 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 three quarters, Hunan's GRP totaled RMB3.8 trillion, a 4.5% year-on-year ("YoY") growth.

Changsha City is the capital of Hunan Province. It is an important central city in the middle reaches of the Yangtze River and one of the first batch of national historical and cultural cities. Changsha City has seven pillar industries including construction machinery, automobiles, biomedicine, electronic information, cultural creativity, tourism, and food manufacturing. Benefiting from economic recovery, Changsha's GRP increased to RMB1.4 trillion and general budgetary revenue increased to RMB122.7 billion in 2023, with tax income accounting for 71.0% of its fiscal revenue. At the end of 2023, Changsha's local government debt balance was RMB305.0 billion, accounting for 21.3% of GRP. Changsha's GDP in the first three quarters of 2024 reached RMB1.1 trillion, a YoY increase of 4.8%.

Exhibit 3. Key economic and fiscal indicators of Changsha City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,327.1	1,396.6	1,433.2
GRP Growth (%)	7.5	4.5	4.8
General Budgetary Revenue (RMB billion)	118.8	120.2	122.7
General Budgetary Expenditure (RMB billion)	154.2	154.9	162.7
Local Government Debt (RMB billion)	255.4	287.0	305.0

Source: Statistics Bureau of Changsha City, CCXAP research

Established in 2015, Xiangjiang New Area is a national-level new area located in the west of the Xiangjiang River in Changsha City, covering an area of 1,200 square kilometers. It is the first batch of National “mass entrepreneurship and innovation” demonstration base. It was officially recognized as the 12th National New Area in China, the first one in Central China and the sole National New Area in Hunan Province. Xiangjiang New Area has the advantages of industrial clusters in intelligent manufacturing equipment and engineering machinery. Xiangjiang New Area will be built into an important base for conversion of high-end manufacturing research and development results and a creative industry cluster. The Xiangjiang New Area Management Committee has introduced a series of supportive policies to promote industrial development, entrepreneurship, and innovation in the Xiangjiang New Area. In 2023, Xiangjiang New Area has achieved GRP of RMB451.9 billion, with a growth rate of 5.6%, ranking sixth among 19 national-level new areas. In 2023, Xiangjiang New Area achieved general public budget revenue of RMB24.2 billion, with tax revenue accounting for 81.8%, indicating good fiscal self-sufficiency. The Xiangjiang New Area is a crucial driver of economic growth in Changsha City, offering significant development prospects and favorable conditions for the Company's business expansion. Besides, the government funds revenue is an important supplement to local government fiscal income, but it is greatly influenced by the real estate market and has a certain degree of volatility. In 2023, Xiangjiang New Area's government funds income amounted to RMB22.0 billion, decreasing from RMB26.4 billion in 2022.

Exhibit 4. Key economic and fiscal indicators of Xiangjiang New Area

	2021FY	2022FY	2023FY
GRP (RMB billion)	367.4	428.2	451.9
GRP Growth (%)	8.4	5.0	5.6
General Budgetary Revenue (RMB billion)	63.3	39.3	24.2

Source: Statistics Bureau of Changsha City, CCXAP research

Government's Willingness to Provide Support

Key strategic role in the development of Xiangjiang New Area

There are two LIIFCs undertaking land development and infrastructure construction projects in the Xiangjiang New Area, Changsha Pilot Investment Holdings Group Co., Ltd. ("Changsha Pilot Investment") and XNDG, each responsible for the development of different area in the Xiangjiang New Area without overlapping. Changsha Pilot Investment is responsible for the infrastructure construction and land development projects in Yanghu area, Binjiang area and Xiangjiang New Town area. The Company maintains its important role in land development and infrastructure construction in Meixi Lake area, Dawangshan area, and Dakecheng area within the Xiangjiang New Area. It has played a key role in various aspects of the development of the Xiangjiang New Area, including primary land development, housing resettlement, and infrastructure projects. In December 2023, the Company signed a cooperation agreement with Xiangtan Municipal Government, the Xiangtan Economic Development Zone Management Committee and Xiangtan Jiuhua Investment Holding Group Co., Ltd. to co-develop the Xinglong Lake area, expanding its development area in Xiangjiang New Area. The cooperative development area is approximately 11.1 square kilometers. Considering its key strategic role in Xiangjiang New Area, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

High sustainability for public policy businesses

As a crucial operational entity in the Xiangjiang New Area, XNDG has a significant competitive advantage in executing infrastructure construction and land development projects in the region. By engaging in numerous construction projects within the Xiangjiang New Area, it has made substantial contributions to the economic and industrial development of the region. However, the Company has undertaken large-scale public policy projects, especially in the Meixi Lake and Dawangshan areas, indicating high business sustainability, but facing significant capital expenditure pressure.

Authorized by the Changsha Government and Changsha Administration for Industry and Commerce, the Company has undertaken the land development projects in the Xiangjiang New Area. Through its subsidiaries, the Company is responsible for primary land development projects covering the area of Dakecheng area, Meixi Lake area, and Dawangshan area. For land development projects, the Company employs a partnership model with public institutions. As of 30 September 2024, the Company had transferable land of more than 28,338 mu, ensuring its sustainability. At present, the Company still needs to invest about RMB37.1 billion into the land projects under development, indicating high capital expenditure pressure. Moreover, this business is susceptible to local land market conditions and government plans.

The Company is involved in infrastructure construction as ancillary projects to land development in the Meixi Lake and Dawangshan areas, receiving income from land development or construction management fees to maintain fund balance, which constitute a relatively small portion of the income. Parts of the project construction funds are sourced from government funding. It has completed a number of projects, such as roads and Changsha Dawangshan Tourism Infrastructure Project. As of 30 September 2024, the Company had 8 main infrastructure construction projects under construction or planning, with total estimated investment of RMB9.7 billion and uninvested amount of around RMB7.1 billion, indicating strong sustainability.

Additionally, the Company participates in the construction of resettlement housing in the Meixi Lake and Dawangshan areas, which includes building and selling such housing to relocated households at prices regulated by the government. The balance of funds relies on land development income, with good payment collection from the local government. As of 30 September 2024, the Company had 5 main resettlement housing projects under construction, with total estimated investment of RMB6.5 billion and uninvested amount of RMB1.2 billion.

High exposure to commercial activities

In addition to public activities, XNDG is also engaged in commercial businesses, mainly including property development, supply chain services, and financial services businesses. We consider the Company's exposure to commercial businesses to be high, accounting for more than 30% of its total assets. In addition, the property development business brings certain capital expenditure pressure to the Company, and the asset management business is subject to market risks.

The Company engages in commercial property development through its subsidiary, providing supplementary revenue to the Company. As of 30 September 2024, it had 6 commercial property development projects under construction, with a total estimated investment of RMB15.4 billion and an uninvested amount of around RMB5.6 billion, exposing certain real estate business risk. In 2023, the Company generated property development revenue of RMB2.5 billion, increasing by 22.8% YoY. As of the 31 March 2024, the Company had available area for sale of 1.3 million square meters, of which 0.6 million square meters have been sold, achieving a contracted sales amount of RMB8.0 billion. Nonetheless, it is noteworthy that this business is subject to market risks due to the real estate industry downturn.

XNDG has participated in the asset management sector via its subsidiary Changsha Xiangjiang Asset Management Co., Ltd. ("Xiangjiang AMC"), the second asset management company in Hunan Province. This involvement encompasses acquiring and disposing of non-performing assets, making further investments related to non-performing asset operations, restructuring debts, conducting asset management activities, overseeing troubled enterprises, and serving as bankruptcy administrators. As of 30 September 2024, the Company had acquired non-performing loans with accumulated value of more than RMB25.0 billion, with average recovery rate of about 70%. This business is one of the Company's profit sources. However, this business is highly subject to market risks.

The Company conducts supply chain services business mainly under demand-driven model. The main trading products are commodities, steel, electronic components, coal, and non-ferrous metals. This business provides supplementary income to the Company. In 2023, the trading revenue accounted for 24.4% of its total revenue, but with low gross profit margin of less than 2%. However, there is a high concentration risk regarding to downstream customers as the top five customers accounted for 62.5% of the total sales as of 30 September 2024.

The Company manages urban assets and services through its subsidiary, including road maintenance, property management, advertising, parking facilities, gas stations, and charging stations. These operations have expanded with good profitability, achieving RMB818.2 million in revenue in 2023 with a gross profit margin of 26.7%. XNDG's cultural tourism projects are mainly located in the Dawangshan area and are constructed and operated by its subsidiaries. These projects include amusement parks and hotels. In 2023, the revenue reached RMB157 million, indicating a relatively small scale of income.

Good track record of receiving government support

XNDG has regularly received support from the local government in the form of operating subsidies and capital injection. The Company has received ongoing capital injection, significantly enhancing its capital strength. In 2023, the Company received a capital injection of RMB229.0 million from the Finance Bureau of Xiangjiang New Area Management Committee. During the same period, the Company converted the project construction funds and risk compensation funds totaling RMB633.0 million provided by the Finance Bureau into paid-in capital. In addition, the Company has received operating subsidies of RMB169.8 million from the local

government in 2023. Given its strategic position in the development of Xiangjiang New Area, we believe that the local government will continue to provide support to the Company.

High debt leverage

XNDG's debt burden continues to show an increasing trend, due to the ongoing financing for the construction projects. The Company's total debt had increased from RMB46.0 billion at end-2022 to RMB59.9 billion at end-2024Q3, with total capitalization ratio of 61.3%. However, the Company has a relatively high short-term debt burden. As of 30 September 2024, its short-term debt accounted for about 23.3% of total debt and its cash to short-term debt ratio was 0.4x, indicating short-term 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.

Moderate asset liquidity

XNDG has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2024, the Company's total asset mainly consisted of inventories and investment properties, accounting for 64.0% of its total asset. Inventories are mainly investment costs for land development and infrastructure construction projects, while investment properties are rental properties such as the resort service center, both with low liquidity. Nonetheless, the investment properties can provide stable rental income for the Company. Additionally, long-term equity investments and debt investments can bring certain investment returns.

Good access to funding from banks and bond markets

XNDG has good access to funding from banks and bond markets. The Company has sufficient approved line of credit from diversified banks. As of 30 September 2024, it had obtained total credit facilities of RMB134.4 billion, with available amount of RMB83.5 billion. The Company also has access to onshore and offshore bond markets. As of 30 September 2024, the Company had outstanding onshore bonds of about RMB11.1 billion at a low average rate of 3.1%. Additionally, the Company had an outstanding offshore debt of USD330.0 million. The Company has low reliance on non-standard financing, accounting for less than 10% to total debt.

ESG Considerations

XNDG 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.

XNDG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Xiangjiang New Area. 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.

XNDG's governance considerations are also material as the Company is subject to oversight by the Changsha 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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