

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Huzhou Nanxun New Town Investment Development Group Co., Ltd with stable outlook**

Hong Kong, 16 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Huzhou Nanxun New Town Investment Development Group Co., Ltd. (“NNTI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- 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 extremely 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 its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important infrastructure construction and land development 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 commercial business risk; (2) medium contingent risks resulting from external guarantees; and (3) fast-growing debt burden and moderate asset liquidity.

### **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 2023, 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.

### **Rating Rationale**

#### **Credit Strengths**

**Important infrastructure construction and land development entity in Nanxun EDZ.** There are three platforms in Nanxun EDZ, including Nanxun Xinkai, NNTI and Zhejiang Huzhou Nanxun Economic Construction Development Co., Ltd (“NECD”). NNTI and NECD are Nanxun Xinkai’s subsidiaries. NNTI is an important platform responsible for infrastructure construction and primary land development in Nanxun EDZ as well as a main construction platform of “Ten Thousand Mu and Hundred Billion” project in Nanxun. Overall, the Company has played an important role in infrastructure construction and primary land development in Nanxun EDZ. We expect that the position of the Company will be maintained in the foreseeable future.

**Good access to diversified funding channels.** NNTI has diversified sources of funding including bank loans, onshore and offshore bond issuances. The Company maintains a good relationship with policy banks and large domestic banks such as Agricultural Development Bank of China and Industrial and Commercial Bank of China. As of 30 June 2023, the Company's total credit facilities were RMB12.3 billion, of which the unutilized amount was about RMB4.1 billion. The Company also has access to debt capital markets. As of 30 June 2023, the Company had 4 onshore and 2 offshore outstanding bonds, with total outstanding amount of RMB2.6 billion and USD69.0 million, respectively.

**Good track record of receiving ongoing government payments.** NNTI has a proven track record of receiving government support in the form of asset transfer, project payments and financial subsidies. From 2020 to 2023H1, the Company has received the projects payments from infrastructure construction projects and land development projects with a total amount of RMB1.4 billion. The local government also provided subsidies of about RMB77 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.

### Credit Challenges

**Moderate commercial business risk.** NNTI also participated in commercial activities such as trading and property development. We estimate that the Company had moderate commercial exposure with the proportion of commercial business assets being around 20% of its total assets.

**Medium contingent risks resulting from external guarantees.** NNTI has medium exposure to contingent liabilities. As of 30 June 2023, The Company's external guarantees amounted to RMB4.2 billion, accounting for 45.5% of its net assets. Besides, there are regional cross-guarantees, indicating certain cross-default risk. Nevertheless, all of which were provided to high-qualified state-owned enterprises with controllable business risk.

**Fast-growing debt burden and moderate asset liquidity.** NNTI's total debt continued to increase in the past three years due to ongoing capital expenditure. From 2020 to 2023H1, the Company's total debt increased from RMB1.7 billion to RMB13.1 billion, and its total capitalization ratio increased to a high level of around 58.6% in 2023H1. NNTI's asset liquidity was moderate as they were mainly inventories and accounts receivable with weak liquidity. As of 30 June 2023, the inventories and accounts receivable accounted for 46% of total assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

### Rating Outlook

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 primary land development and infrastructure construction in Nanxun EDZ.

### **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.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

### **Regulatory Disclosures**

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

Karissa Du  
*Credit Analyst*



+852-2860 7126

[karissa\\_du@ccxap.com](mailto:karissa_du@ccxap.com)

Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



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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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656