

## **CCXAP assigns first-time long-term credit rating of A<sub>9</sub> to Huzhou Communications Investment Group Co., Ltd., with stable outlook.**

Hong Kong, 8 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A<sub>9</sub> to Huzhou Communications Investment Group Co., Ltd. (“HCIG” or the “Company”), with stable outlook.

The A<sub>9</sub> long-term credit rating of HCIG reflects (1) Huzhou Municipal Government’s very 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 Huzhou Municipal Government’s capacity to provide support reflects Huzhou City’s good geographic advantage, with ongoing economic growth and good fiscal stability. However, the capacity to provide support is constrained by its relatively weak debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) key role in transportation infrastructure construction of Huzhou City, with ongoing investments in toll road and high-speed railway projects; (2) good track record of receiving ongoing government payments; and (3) good access to funding. However, the rating is constrained by the Company’s (1) fast debt growth and relatively high debt leverage; and (2) moderate asset liquidity.

### **Corporate Profile**

Established in 1994, HCIG is the key investment and financing platform for transportation infrastructure construction in Huzhou City. The Company is mainly engaged in transportation infrastructure construction, including toll road construction and operation, railway construction as well as bus operations. In addition, the Company is also engaged in commercial businesses including engineering construction, energy business and trading. As of 30 June 2023, State-owned Assets Supervision and Administration Commission of the Huzhou Municipal Government (“Huzhou SASAC”) held 90% equity interests of HCIG, while Zhejiang Financial Development Co., Ltd held the remaining 10%. Huzhou SASAC is the ultimate shareholder of the Company.

### **Rating Rationale**

#### **Credit Strengths**

**Key role in transportation infrastructure construction of Huzhou City.** HCIG has a monopoly position and strong regional importance in transportation infrastructure construction of Huzhou City. It is mainly responsible for the investment, financing, and operation of transportation infrastructure in Huzhou City, as well as the operation and management of transportation-related industries. In addition, the transportation infrastructure construction business is sustainable given the considerable construction projects in the pipeline.

**Low exposure to commercial activities.** In addition to public activities, HCIG is also engaged in commercial businesses including engineering construction and commodities trading. We

consider the Company's exposure to commercial businesses to be low, accounting for less than 15% of its total assets.

**Good track record of receiving ongoing government payments.** As the important transportation infrastructure construction entity in Huzhou City, HCIG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Given the Company's status as the sole transportation infrastructure construction entity in Huzhou City, we expect the local government will continue to support the Company in the future.

**Good access to funding.** As an important municipal platform in Huzhou City, HCIG has good access to funding from banks and bond market. The Company has sufficient standby liquidity. In addition, the Company has no non-standard financing.

### Credit Challenges

**Fast debt growth and relatively high debt leverage.** HCIG's total debt has continued to increase in the past three years due to ongoing financing needs. The Company's total debt increased from RMB28.0 billion at end-2020 to RMB35.8 billion at mid-2023, and its total capitalization ratio was at a relatively high level of 50.3% at mid-2023.

**Moderate asset liquidity.** The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 30 June 2023, the Company's total asset mainly consists of inventories, fixed assets, and construction under progress, totally accounting for 59.2% of total assets.

### Rating Outlook

The stable outlook on HCIG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its key role in transportation infrastructure construction of Huzhou City.

#### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity 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 improvement in debt leverage or assets quality.

**What could downgrade the rating?** The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide 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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