

CCXAP assigns first-time long-term credit rating of A_g to Huzhou City Investment Development 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_g to Huzhou City Investment Development Group Co., Ltd. (“HIDG” or the “Company”), with stable outlook.

The A_g long-term credit rating of HIDG reflects Huzhou Municipal Government’s very strong capacity to provide support, and 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 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 provide support, which is based on the Company’s (1) strong position in the urban infrastructure construction and public utility services of Huzhou City, with high business sustainability; (2) good track record of receiving ongoing government payments; and (3) good access to funding and sufficient standby liquidity. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset liquidity.

Corporate Profile

Founded in 1993, HIDG is the most important local infrastructure investment and financing companies (“LIIFC”) as well as the largest state-owned operation platform in Huzhou City. The Company is mainly engaged in the urban infrastructure construction, water supply and gas supply services in Huzhou City. It has also participated in other commercial activities such as property development, trading, and property leasing business. The Company played a significant role in implementing the Huzhou Municipal Government’s urban planning and development policies and have received strong financial and operational support from the Huzhou Municipal Government. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Huzhou Municipal Government (“Huzhou SASAC”).

Rating Rationale

Credit Strengths

Strong position in the urban infrastructure construction and public utility services of Huzhou City, with high business sustainability. As the largest state-owned asset operation platform in Huzhou City, HIDG plays a significant role in implementing the Huzhou Municipal Government’s urban infrastructure construction and housing development policies and plans. It is also the most primary public utility services provider in Huzhou City, with 95% market shares of water supply and gas supply markets in the region.

Good track record of receiving ongoing government payments. As a significant state-owned enterprise wholly owned by and under the direct supervision of the Huzhou SASAC, HIDG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Given its essential position in Huzhou City, we expect the local government will continue to support the Company in the future.

Good access to funding and sufficient standby liquidity. HIDG has good access to funding from banks and capital markets. The Company has sufficient standby liquidity. The listing of Huzhou Gas on the Hong Kong Exchange has also broadened the Company's equity financing channels. The Company has low reliance on non-standard financing, accounting for less than 10% to total debt.

Credit Challenges

Medium exposure to commercial activities. HIDG's commercial businesses mainly include property development, trading, and property leasing businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% to 30% of its total assets. Given that the local government is transferring cultural and tourism assets into the Company, we expect its exposure to commercial activities will further increase.

High debt leverage and moderate asset liquidity. HIDG has an increasing debt burden and a high debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total asset mainly consists of inventories and investment properties, both with weak liquidity.

Rating Outlook

The stable outlook on HIDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its essential position in the development of Huzhou City.

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 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 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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http://www.ccxap.com/en/rating_services/category/6/

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