

CCXAP assigns first-time long-term credit rating of BBB_g+ to Hengyang High-tech Holding Group Co., Ltd., with stable outlook.

Hong Kong, 15 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Hengyang High-tech Holding Group Co., Ltd. (“HHHG” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of HHHG 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 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) good track of receiving government support; and (3) high sustainability for public policy businesses. 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 and profitability.

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 September 2023, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission of Hengyang City.

Rating Rationale

Credit Strengths

Most important entity for urban infrastructure construction in Hengyang HTZ. HHHG is the largest and most important infrastructure construction entity in Hengyang HTZ. 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 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.

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. 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.

Credit Challenges

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.

Fast debt growth, with large capital expenditure pressure. HHHG has a relatively fast debt growth over the past three years. The Company's total debt had increased from RMB20.9 billion at end-2020 to RMB29.8 billion at end-2023Q3, with total capitalization ratio of 52.0%. The increase in debt is mainly attributable to the ongoing external financing for the land development and infrastructure construction projects. 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 and profitability. 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. However, the Company has certain amount of cash reserves to support its daily operations and debt repayment, albeit insufficient to cover its short-term debts. In addition, the investment properties can provide certain supplemental income to the Company.

Rating Outlook

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.

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.

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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