

## **CCXAP affirms Weihai Huantong Industrial Investment Group Co., Ltd. 's long-term credit rating to BBB<sub>g-</sub>, with stable outlook.**

Hong Kong, 29 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Weihai Huantong Industrial Investment Group Co., Ltd.’s (“HTII” or the “Company”) long-term credit rating at BBB<sub>g-</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of HTII reflects Huancui District Government’s (1) relatively strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Huancui District Government’s capacity to support reflects its status as the development center of Weihai City and the seat of Weihai Municipal Government. It has relatively strong economic conditions and good fiscal metrics.

The rating also reflects the local government’s extremely high willingness to support, which is based on the Company’s (1) full ownership and ultimate control by the Huancui District Government; (2) essential role in infrastructure construction and regional development in Huancui District; and (3) solid track record of receiving government supports. However, the Company’s rating is constrained by its (1) moderate exposure to commercial activities with increasing business risk related to property development; (2) increasing debt level and moderate asset liquidity; and (3) medium exposure to contingent liabilities.

### **Corporate Profile**

Founded in November 2021, HTII is the most important local infrastructure investment and financing company (“LIIFC”) in Huancui District, Weihai City, Shandong Province. After consolidation of the local state-owned enterprises, HTII has become the largest state-owned enterprise by asset size and the dominant platform engaged in infrastructure construction, land consolidation, and operation of state-owned assets in Huancui District. The Company also undertakes diversified commercial businesses such as leasing of sea area use rights, property projects, and parking lots, as well as commodity trading business. As of 30 September 2023, the Company was directly and wholly owned by the State-owned Assets Service Center of Huancui District (“Huancui SASC”) and the Huancui District Government was the ultimate controller.

### **Rating Rationale**

#### **Credit Strengths**

**Essential role in infrastructure construction and regional development in Huancui District.** HTII is the most important LIIFC delegated by the Huancui District Government to undertake local infrastructure construction, state-owned asset operations, and land consolidation. HTII has become the essential entity in the economic and industrial development of the region after the injection of the local state-owned enterprise, indicating an irreplaceable position.

**Solid track record of receiving government supports.** HTII and its subsidiaries have a solid track record of receiving recurring support from the Huancui District Government, including operating subsidies, capital and asset injections, debt swaps, and payments for infrastructure construction projects, in order to help the Company to meet its policy objectives and financial obligations. Considering the strategic role of HTII, we expect the Company will continue to receive support from the local government in the future, which will enhance its operating and capital strength accordingly, in our view.

**Good access to funding from banks and domestic bond market.** HTII and its subsidiaries' important strategic position in Huancui District are well-recognized by banks and domestic bond market. Most of the incremental debt consists of bank loan or domestic bond issuance proceeds.

### Credit Challenges

**Moderate exposure to commercial activities with increasing business risk related to property development.** In addition to public activities, HTII is also involved in other commercial businesses such as leasing of sea area use rights, property projects, and parking lots, as well as commodity trading business. Although the commercial assets accounted for a relatively large proportion of total assets as of end-2022, we estimate the Company's risk exposure to commercial business is moderate as the majority of the assets are the sea area use rights transferred from the local government with low operational risk.

**Increasing debt level and moderate asset liquidity.** HTII's total debts demonstrated rapid growth along with the ongoing investment in construction projects. The Company has a large investment plan in its diversified business including infrastructure construction, land consolidation, as well as commercial properties, which will exert certain capital pressure. The Company's total asset mainly consists of intangible assets, inventories and other receivables, all of which are considered low liquidity.

**Medium exposure to contingent liabilities.** HTII's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. Most of the outstanding external guarantees were provided to local state-owned enterprises. The contingent liabilities of the Company are subject to regional risks, as the majority of the guarantees have been provided to local state-owned enterprises. In addition, the Company provided a loan guarantee for one of its joint venture property development project companies. Although HTII had not made any compensation for this external guarantee as of 30 June 2023, it still bears certain contingent liabilities risks.

### Rating Outlook

The stable outlook on HTII's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its essential role in infrastructure construction and regional development in Huancui District, will remain largely unchanged over the next 12-18 months.

**What could upgrade the rating?**



The rating could be upgraded if (1) Huancui District Government's capacity to support the Company strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and more diversified funding sources.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) Huancui District 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 reduced strategic significance or deteriorated debt management.

#### **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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