

CCXAP assigns first-time long-term credit rating of BBB_g- to Huaiyuan County New Urbanization Construction Co., Ltd, with stable outlook.

Hong Kong, 8 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Huaiyuan County New Urbanization Construction Co., Ltd (“HYNC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of HYNC reflects Huaiyuan County Government’ relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Huaiyuan County Government’s capacity to provide support reflects Huaiyuan County’s gross regional production (“GRP”) ranking first among counties or districts in Bengbu City, but constrained by its relatively weak fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position as the main infrastructure construction platform in Huaiyuan County; (2) good sustainability of public policy businesses; and (3) solid track record of receiving support from the local government and its parent company. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) rapid debt growth driven by large capital expenditure needs; and (3) medium exposure to contingent liability risk.

Corporate Profile

HYNC, founded in 2015, is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Huaiyuan County. HYNC functions as the core urban infrastructure development platform in Huaiyuan County, mainly engaging in infrastructure construction, bridge operation, as well as affordable housing construction and urban renewal projects. In addition, it also engages in more commercially driven activities, including leasing of water area use rights, sand mining and self-operated project construction. As of 30 September 2023, the State-owned Assets Supervision and Administration Commission of Huaiyuan County People’s Government (“Huaiyuan SASAC”) was the ultimate controller of the Company, indirectly holding 100% stakes of the Company through Huaiyuan Investment Group Co., Ltd (“HYIG”).

Rating Rationale

Credit Strengths

Important position as the main infrastructure construction platform in Huaiyuan County. HYNC plays a vital role in the infrastructure construction of Huaiyuan County. HYNC conducts many public-policy activities for the local government, including urban infrastructure construction, affordable housing construction and shanty town renovation, which carry significant strategic importance for the government and benefit the local social and economic development. Considering its strategic importance in undertaking public-policy projects in Huaiyuan County, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good sustainability of public policy businesses. As of 30 June 2023, the Company had invested a total of RMB6.2 billion into 6 infrastructure construction projects under construction, including the construction of roads, rural renovation projects, and urban renewal projects. Meanwhile, the Company had 3 proposed projects with a total planned investment of RMB2.1 billion including shantytown construction projects and urban renewal projects. The Company has sufficient project reserves that support good stability and sustainability of the infrastructure construction business.

Solid track record of receiving support from the local government and its parent company. As an important infrastructure construction platform in Huaiyuan County, HYNC has received recurring support from the local government and HYIG, including financial subsidies, asset injections and capital injections. In light of HYNC's important strategic role in the region, we expect the Company will receive ongoing support from the government and its parent in the future.

Credit Challenges

Medium exposure to commercial activities. We consider HYNC to have medium exposure to commercial activities, such as leasing of water area use rights, sand mining and self-operated project construction, as its market-driven businesses accounted for around 20% to 25% of its total assets. We expect the Company's exposure to commercial activities will continue to rise following its increasing investment in self-operated projects in the future.

Rapid debt growth driven by large capital expenditure needs. As of 30 September 2023, the Company's total debt increased from RMB8.9 billion at end-2020 to RMB15.3 billion, with the total capitalization ratio of 48.7%. As of 30 September 2023, its short-term debt accounted for about 13.1% of its total debt, and cash to short-term debt ratio was 0.4x, indicating certain short-term debt servicing pressure.

Medium exposure to contingent liability risk. As of 30 September 2023, the Company's external guarantees amounted to RMB7.4 billion, accounting for 46.0% of its net assets. 97.8% of the external guarantees were provided to local state-owned enterprises ("SOEs") in Huaiyuan County and the remaining external guarantees were provided to local private-owned enterprises. Given the relatively large amount of external guarantees with no counter-guarantee measures, the Company is subject to certain contingent liability risk.

Rating Outlook

The stable outlook on HYNC's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important position of urban infrastructure development platform of Huaiyuan County.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's



willingness to provide support, such as decreased exposure to contingent liability risk and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance 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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