

CCXAP assigns first time long-term credit rating of BBB_g to Zhejiang Xingshanghe Urban Development Group Co., Ltd, with stable outlook

Hong Kong, 20 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g to Zhejiang Xingshanghe Urban Development Group Co., Ltd. (“ZXUD” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of ZXUD reflects (1) Nanxun District Government’s 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 Nanxun District Government’s capacity to provide support is reflected by its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) status as the most important infrastructure construction and state-owned assets operation entity in Nanxun District; (2) high sustainability of public policy businesses; (3) good track record of receiving government support; and (4) good access to multiple financing channels with sufficient credit facilities. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities with manageable commercial risks; (2) fast debt growth and moderate asset liquidity; and (3) medium contingent liability risk from external guarantee.

Corporate Profile

Founded in 2020, after acquiring 93.1% of the equity of Huzhou Nanxun State-owned Assets Investment Holding Co., Ltd (“NXSA”) in 2022, ZXUD became the most important local infrastructure investment and financing company (“LIIFC”), with the largest asset size, in Nanxun District. The Company mainly engages in land development, agent construction, and sewage treatment in Nanxun District. Apart from public policy business, it is also engaged in commercial businesses such as property development, property leasing and trading. As of 30 September 2023, the Company was wholly owned and directly controlled by the Finance Bureau of Nanxun District.

Rating Rationale

Credit Strengths

Most important infrastructure construction and state-owned assets operation entity in Nanxun District. There are four major LIIFCs in Nanxun District to support local economic and industrial development, each with a clear position in the region. ZXUD is the largest LIIFC by total assets, focusing on land development, agent construction, and sewage treatment in Nanxun District, including the Shanghai Innovation Cooperation Zone (“SICZ”). We believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses. As the most important infrastructure construction and state-owned assets operation entity in Nanxun District, ZXUD has participated



in land development, infrastructure construction, resettlement housing and sewage treatment businesses through its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure on the Company. In addition, the income from agent construction, land development and sales of resettlement houses is subject to government policies, sales, and settlement progress, exerting certain pressure on the Company's payment collection.

Good track record of receiving government support. ZXUD has a good track record of receiving support from local government in terms of capital injections, equity transfer, and government subsidies since its establishment. From 2021 to 2023Q3, the local government has injected about RMB2.4 billion in cash into the Company. Furthermore, the local government consistently transfers equity of regional state-owned companies to the Company to support its operation.

Good access to multiple financing channels with sufficient credit facilities. As of 30 September 2023, the Company's total credit facilities were RMB53.3 billion, of which the unutilized portion was RMB19.5 billion. Furthermore, the Company has a track record of direct financing in both onshore and offshore bond markets. As of 30 September 2023, the Company had 3 existing offshore bonds issued by its subsidiaries, with a remaining amount of RMB881.0 million in total. In addition, ZXUD has relatively low exposure to non-standard financing, which accounts for around 14.0% of its total debts.

Credit Challenges

Medium exposure to commercial activities with manageable commercial risks. ZXUD 's exposure to commercial activities is medium as the commercial assets accounted for around 30% of the total assets as of 31 December 2022. The commercial businesses include property development, property leasing, and trading. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

Fast debt growth and moderate asset liquidity. With the increasing financing demand for construction projects, ZXUD had a fast debt growth over the past three years. The Company's total debt increased from RMB42.3 billion at end-2020 to RMB57.5 billion at end-2023Q3, with a total capitalization ratio of 58.2%. The Company's assets mainly consist of inventories, receivables, investment properties, and construction in progress, all with relatively low liquidity.

Medium contingent liability risk from external guarantee. ZXUD has moderate exposure to external guarantees. As of 30 September 2023, ZXUD's external guarantees amounted to RMB16.5 billion, accounting for 40.1% of its net assets. All guarantees are provided to the state-owned enterprises and rural cooperatives in Nanxun District, which are likely to be supported by the local government when a credit event occurs. Nevertheless, if a credit event occurs in Nanxun District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

Rating Outlook

The stable outlook on ZXUD's rating reflects our expectation that the Company will maintain its status as the most important infrastructure construction entity in Nanxun District. We also expect that the Company will continue to receive ongoing government support.

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 a decrease in exposure to commercial activities.

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 a decrease in its strategic significance or weaker government support.

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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