
CCXAP upgrades Huzhou Nanxun District State-owned Assets Investment Holding Co., Ltd.’s long-term credit rating to BBB_g, with stable outlook.

Hong Kong, 25 April 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Huzhou Nanxun District State-owned Assets Investment Holding Co., Ltd. (“NXSA” or the “Company”) to BBB_g from BBB_{g-}, with stable outlook.

The rating upgrade is based on the improving regional strength of Nanxun District, which strengthens the local government’s capacity to support the Company. It also reflects the important position of the Company, as the important infrastructure construction entity in the core area of Nanxun District.

The long-term credit rating of NXSA reflects Nanxun District Government’s strong capacity to provide support, and extremely high willingness to provide support to the Company based on our assessment of the Company’s characteristics. Our assessment of Nanxun District Government’s capacity to provide support reflects 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 provide support, which is based on the Company’s (1) key role in infrastructure construction and public services in Nanxun District; (2) good track record of receiving government payments; and (3) diversified sources of funding. However, the rating is constrained by the Company’s (1) medium commercial business risk; (2) high short-term debt repayment pressure and moderate asset liquidity; and (3) moderate contingent liability risk associated with external guarantees.

Corporate Profile

Established in 2004, NXSA is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Nanxun District. The Company is mainly engaged in infrastructure construction, affordable housing rental and sales business, and the provision of public services such as sewage treatment, and greenery maintenance in Nanxun District. In addition, the Company also conducts commercial businesses such as commercial trading, commercial housing development and leasing. As of 30 September 2023, NXSA was 93.13% owned by the Zhejiang Xingshanghe Urban Development Group Co., Ltd. (“ZXUD”), and 6.88% owned by Zhejiang Financial Development Co., Ltd. NXSA is ultimately controlled by the Finance Bureau of Nanxun District.

Rating Rationale

Credit Strengths

Key role in infrastructure construction and public services in Nanxun District. As an important infrastructure construction and public services provider entity in Nanxun District, NXSA has participated in infrastructure construction, affordable 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 relatively high capital expenditure pressure on the Company. We expect that the leading position of the Company will be maintained in the foreseeable future given its sufficient public-related projects reserves.

Good track record of receiving government payments. The local government provides strong support to the Company for its business development through various forms such as project payments, cash injections, equity transfers, asset injections and financial subsidies, which significantly enhance the capital strength and increase operational assets. Given its key roles in infrastructure construction and public services, we expect the Company will continue to receive support from the local government and its parent company in the future.

Diversified sources of funding. NXSA has diversified sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing. As of 30 September 2023, bank loans and bond financing accounted for 63.4% and 27.3% of the Company's total debt, respectively. From 2020 to 2023Q3, the Company issued 3 tranches of onshore bonds and 1 offshore bond, raising around RMB2.1 billion, with a coupon rate of 3.7% to 5%. Meanwhile, the Company had low exposure to non-standard financing, with a proportion to total debt of around 9.3% as of 30 September 2023.

Credit Challenges

Medium commercial business risk. NXSA also participates in commercial activities such as commercial trading, commercial housing development and leasing business. By the end of 2022, the Company had medium commercial exposure with the proportion of commercial business assets being around 30% of its total assets. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

High short-term debt repayment pressure and moderate asset liquidity. The Company has relatively high short-term debt repayment pressure since its short-term debt accounted for about 27.9% of total debt as of 30 September 2023, and the liquidity profile was weak with a cash-to-short-term debt ratio of around 0.4x at the same time, indicating that its cash balance was insufficient to cover its short-term debt. NXSA's asset liquidity was moderate as they were mainly inventories and government-related receivables, with weak liquidity.

Moderate contingent liability risk associated with external guarantees. NXSA is exposed to a moderate contingent liabilities risk. As of 30 September 2023, the Company recorded an external guarantee amount of RMB23.9 billion, accounting for 76.9% of its net assets. All of these external guarantees were provided to local state-owned enterprises or enterprises set up by local economic cooperatives, which have good credit history and are regulated by the local government. 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 NXSA's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and that the Company will maintain its key roles in infrastructure construction and public services in Nanxun District.

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; or a decrease in external guarantees.

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; 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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