CCXAP affirms Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 23 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of BBB_g- of Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd. ("NXCD" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of NXCD reflects Nanxun District Government's strong capacity to provide support, and very 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) important role in infrastructure construction in Nanxun District, especially the Shanghai Innovation Cooperation Zone ("SICZ"); (2) high sustainability for public policy projects; and (3) track record of receiving government payments. However, the rating is constrained by the Company's (1) increasing debt burden; (2) weak asset liquidity; and (3) moderate contingent liability risk associated with external guarantees.

Corporate Profile

NXCD, formerly known as Huzhou Nanxun Zhenxun Investment Development Co., Ltd., was founded in 2010 with a registered and paid-in capital of RMB5.0 million. In 2022, the Company changed its name and was consolidated into Zhejiang Xingshanghe Urban Development Group Co., Ltd. ("ZXUD"). As of 31 December 2023, it is ultimately controlled by the Finance Bureau of Nanxun District, with a registered and paid-in capital of RMB600.0 million. As one of the local infrastructure investment and financing companies ("LIIFCs"), the Company is mainly engaged in infrastructure construction and land consolidation in the central urban area and suburbs of Nanxun District including SICZ. In addition, the Company also conducts commercial businesses such as trading, leasing, parking management and funeral services.

Rating Rationale

Credit Strengths

Important role in infrastructure construction in Nanxun District, especially in SICZ. There are four major LIIFCs in Nanxun District to support local economic and industrial development, each with a clear position in the region. ZXUD, NXCD's parent company, is the largest LIIFC by total assets, focusing on land development, agent construction, and sewage treatment in Nanxun District, including SICZ. As the subsidiary of ZXUD, NXCD serves as an important platform undertaking infrastructure construction and land consolidation in the central urban area and suburbs of Nanxun District, including SICZ.

High sustainability for public policy projects. The Company's infrastructure construction projects adopt the agency model. Such projects are mainly the construction of roads, bridges, parks and water conservancy facilities. Overall, the infrastructure construction business is sustainable given the considerable construction projects in the pipeline. However, this business also exerts pressure on the Company's capital expenditure.

Track record of receiving government payments. NXCD has a proven track record of receiving government support in the form of capital injection, asset transfers, project payments and financial subsidies. In 2023, the Company received a cash injection of RMB78.1 million from its parent company; and according to the government equity transfer plan, the government transferred 2 companies into NXCD, increasing the Company's capital strength and broadening its business scope. During the same period, the Company received RMB72.7 million in government subsidies to support its operation.

Credit Challenges

Increasing debt burden. NXCD's total debt continued to increase due to ongoing investment needs. From 2022 to 2023, the Company's total debt increased from RMB6.4 billion to RMB7.5 billion, and its total capitalization ratio maintained at a relatively high level of around 50.8% in 2023. The Company has relatively high short-term debt repayment pressure since its short-term debt accounted for about 28.9% of total debt as of 31 December 2023, and the liquidity profile was weak with a cash-to-short-term debt ratio of around 0.3x at the same time, indicating that its cash balance was insufficient to cover its short-term debt.

Weak asset liquidity. NXCD's asset liquidity was weak as they were mainly inventories with weak liquidity. As of 31 December 2023, the inventories amounted to RMB7.7 billion, accounting for 42.8% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects. Furthermore, as of 31 December 2023, the Company had pledged assets of RMB1.1 billion for loans, accounting for 15.2% of net assets. The Company also has large-scale transfers of assets from the government that has not yet processed the ownership certificates. The weak liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Moderate contingent liability risk associated with external guarantees. NXCD has moderate exposure to contingent liabilities. As of 31 December 2023, the Company's external guarantees were RMB1.4 billion, accounting for 18.8% of its net assets, all of which were provided to local state-owned enterprises and rural collective economic organizations. The overall risk of contingent liabilities is manageable. 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 NXCD'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 important roles in the infrastructure construction in Nanxun District including SICZ.

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 improvement in debt management and asset quality.

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 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

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:
http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Olivia Feng
Senior Credit Analyst
+852-2860 7133
olivia_feng@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656