CCXAP upgrades Huzhou Wuxing Economic Development and Investment Group Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Hong Kong, 28 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Huzhou Wuxing Economic Development and Investment Group Co., Ltd. ("WEDG" or the "Company") to BBB_g from BBB_g-, with stable outlook.

The rating upgrade is based on the robust economic development of Wuxing District, which strengthens the local government's capacity to support the Company. It also reflects the Company's strategic importance in the regional development of Wuxing Economic Development Zone ("Wuxing EDZ").

The long-term credit rating of WEDG reflects Wuxing District Government's strong capacity to support and its very high willingness to support, based on our assessment of the Company's characteristics. Our assessment of Wuxing District Government's capacity to provide support reflects its leadership as the first ranking by gross regional product ("GRP") in Huzhou City and the local government's moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strategic importance in the infrastructure construction in Wuxing EDZ; and (2) track record of receiving government payments. However, the Company's rating is constrained by its (1) increasing commercial business risk driven by self-operated projects; (2) increasing debt burden and moderate asset liquidity; and (3) high dependence on non-standard financing.

Corporate Profile

Established in December 2004, formerly known as Huzhou Daixi Urban Development Co., Ltd. As an important investment and construction entity in the Wuxing District of Huzhou City, WEDG is primarily engaged in infrastructure construction and self-operated projects in Wuxing EDZ. It is also involved in commercial businesses including property leasing, merchandise trading, and ore trading. As of 31 December 2023, the Company was 60% owned by Huzhou Wuxing Development of State-owned Capital Investment Co., Ltd. ("WSCI") and 40% owned by Huzhou Wuxing Transportation and Tourism Investment Development Group Ltd ("WTTI"). The Company was ultimately wholly owned by Wuxing District State-owned Assets Supervision and Administration Service Centre ("Wuxing Service Centre"), and the People's Government of Wuxing District of Huzhou City ("Wuxing District Government ") was its ultimate controlling shareholder.

Rating Rationale

Credit Strengths

Strategic importance in the infrastructure construction in Wuxing EDZ. As an important infrastructure construction entity in Wuxing District of Huzhou City, WEDG is primarily engaged in construction projects including road and bridge construction, comprehensive environmental improvement, sewage treatment and relocation housing construction. The Company adopts an agency model for its infrastructure construction projects. There were 8 infrastructure construction projects under construction or planning, with a total investment amount of around RMB3.3 billion and an outstanding amount of RMB674.0 million. Overall, the Company's projects in the pipelines can ensure the sustainability of the business, but cause large capital expenditure pressure on the Company.

Track record of receiving government payments. WEDG has a proven track record of receiving government support in the form of capital injection, asset transfers, tax incentives and financial subsidies. In 2022, the Company received mining rights and advertising space management rights, increasing its capital reserve by RMB3.4 billion. From 2021 to 2023, the Company received government subsidies of approximately RMB182.0 million. We expect the local government will continue to provide ongoing support to the Company, given WEDG's important role in the infrastructure construction of Wuxing District, especially Wuxing EDZ.

Credit Challenges

Increasing commercial business risk driven by self-operated projects. WEDG's commercial businesses mainly include merchandise trading, ore trading and property leasing. In addition, the Company is also carrying out self-operated projects in the region. We consider the Company's exposure to commercial businesses to be medium, accounting for around 35% of its total assets. Due to the economic downturn, the future revenue generated from self-operated projects is also uncertain, depending on regional development and the operating conditions of attracted companies. At the same time, along with the development of self-operated projects, the proportion of the Company's commercial business will increase in the future.

Increasing debt burden and moderate asset liquidity. WEDG's debt burden is increasing, which is driven by the large capital expenditure. Its total debt has increased from RMB6.8 billion at end-2022 to RMB10.4 billion at end-2023, with a total capitalization ratio of 57.9% as of 31 December 2023. Considering the capital expenditure pressure caused by the Company's large number of self-operated projects, we expect that the Company will continue to raise funds through external financing. WEDG's asset liquidity is moderate as they are mainly inventories and other receivables with weak liquidity. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit-negative.

High dependence on non-standard financing. The Company is highly dependent on non-standard financing, accounting for 47.5% of the total debt at end-2023, with a relatively high interest rate of around 7.3%. Besides, the non-standard financing channels are unstable, which may affect the Company's financing ability.

Rating Outlook

The stable outlook on WEDG's rating reflects our expectation that the Wuxing District Government's capacity to provide support will be stable, and that the Company will maintain its important role in local infrastructure construction in Wuxing EDZ over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Wuxing District Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreased debt burden and improved asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) Wuxing District Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decreased government payments, or weakened funding capabilities.

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