

## CCXAP upgrades Zhejiang Xinchang Investment Development Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, with stable outlook.

Hong Kong, 4 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Zhejiang Xinchang Investment Development Co., Ltd. (“ZXID” or the “Company”) to BBB<sub>g</sub>+ from BBB<sub>g</sub>, with stable outlook. At the same time, CCXAP has upgraded its senior unsecured debt rating to BBB<sub>g</sub>+ from BBB<sub>g</sub>.

The BBB<sub>g</sub>+ long-term credit rating of ZXID reflects the enhancing strength of Xinchang County, which strengthens the local government’s capacity to support the Company. It also reflects the Company’s status as the most important local infrastructure investment and financing company in Xinchang County.

The long-term credit rating of ZXID reflects (1) Xinchang County 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 Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability, ranking one of the Top 100 Counties in China.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant strategic role as the largest state-owned enterprise in Xinchang County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

### Corporate Profile

Established in 2003, ZXID is the largest local infrastructure investment and financing company (“LIIFC”) by total assets in Xinchang County. It plays the most important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment, and public transportation. Besides, the Company also engages in some commercial activities such as engineering construction, material trading and property leasing. As of 31 December 2023, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission Office of the People’s Government of Xinchang County (“Xinchang SASAC”).

### Rating Rationale

#### Credit Strengths

**Dominant strategic role as the largest state-owned enterprise in Xinchang County.** ZXID is the largest LIIFC in terms of total assets in Xinchang County and the primary LIIFC wholly owned and effectively controlled by Xinchang SASAC. The Company has played an essential and active role in implementing the Xinchang County Government’s major strategic initiatives for urban planning, municipal construction and utility and facility operation. Given its dominant

strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

**High sustainability for the public policy projects.** Entrusted by the local government, ZXID has undertaken a large amount of infrastructure construction projects, such as roads, schools, resettlement housings, and pipe networks, in Xinchang County. As of 31 December 2023, the Company had 20 major infrastructure construction projects under construction, with a total estimated investment of RMB14.1 billion and an uninvested amount of RMB5.7 billion. The Company has a large amount of infrastructure construction projects in the pipelines, indicating strong sustainability of the business, but exerting great capital expenditures pressure.

**Good track record of receiving government payments.** ZXID has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and asset transfers. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

#### Credit Challenges

**Medium exposure to commercial activities.** In addition to public activities, ZXID is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider ZXID's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets.

**High debt leverage and moderate asset quality.** With ongoing financing for its construction projects in recent years, ZXID has a large debt burden and a high debt leverage. The Company's total debt increased from RMB85.0 billion at end-2022 to RMB105.3 billion as of 31 December 2023, with total capitalization of 63.1%. ZXID has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2023, the Company's total asset mainly consists of inventories and non-current assets, which accounted for 85.5% of its total asset.

#### Rating Outlook

The stable outlook on ZXID's rating reflects our expectation that Xinchang County Government's capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County 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 material decrease in exposure to commercial activities, or improved debt management.

#### What could downgrade the rating?



The rating could be downgraded if (1) Xinchang County 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 importance of its policy role, material decrease in government payments, or deteriorated debt management.

### **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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