

CCXAP affirms Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 5 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Zhejiang Huzhou Public Innovation Investment and Construction Co., Ltd.’s (“HPIC” or the “Company”) long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of HPIC 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 Lianshi Town of Nanxun District; (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) large capital expenditure that leads to increased debt burden; (2) moderate asset liquidity; and (3) reliance on non-standard financing.

Corporate Profile

Established in 2017, HPIC is an important local infrastructure construction entity in Nanxun District and primarily undertakes infrastructure construction projects such as highway upgrading, shantytown renovation as well as road reconstruction projects in Lianshi Town of Nanxun District. The Company is also engaged in commercial activities including trading and property leasing. As of 31 December 2023, Nanxun District Finance Bureau was its ultimate controller, directly holding 75% of the Company's stake and indirectly holding the remaining 25% through Huzhou Nanxun Communications Water Conservancy Investment and Construction Group Co., Ltd. (“HNCW”) and Huzhou Nanxun District Transportation Investment Group Co., Ltd. (“HNTI”).

Rating Rationale

Credit Strengths

Important role in infrastructure construction in Lianshi Town of Nanxun District, with high sustainability for public policy projects. As an important entity in Nanxun District, the Company is mainly engaged in infrastructure construction in Lianshi Town, with strong regional exclusivity. From 2022 to 2023, the Company completed 5 key infrastructure construction projects, and there were 20 infrastructure construction projects under construction or planning, with a total outstanding amount of around RMB4.9 billion. Overall, the infrastructure

construction business is sustainable given the considerable construction projects in the pipeline. However, this business also exerts great pressure on the Company's capital expenditure.

Track record of receiving government payments. HPIC has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. In 2023, the Company received government support of RMB877.9 million, including asset injection of RMB603.8 million and financial subsidy of RMB274.1 million. Given its important position in Lianshi Town, we expect the local government will continue to support the Company in the future.

Credit Challenges

Increasing debt burden. HPIC's total debt continued to increase in the past year as ongoing investment needs. From 2022 to 2023, the Company's total debt increased from RMB5.9 billion to RMB7.4 billion, and its total capitalization ratio was at a relatively high level of around 50.9% at end-2023. Given its large capital expenditure and slow operating repayment, we expect the Company's debt burden will remain at a relatively high level.

Moderate asset liquidity. HPIC's asset liquidity was moderate as they were mainly inventories with weak liquidity. As of 31 December 2023, the inventories amounted to RMB8.8 billion, accounting for 54.5% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects, green plants and seedlings. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit-negative.'

Reliance on non-standard financing. HPIC's financing channels mainly include bank loans and non-standard debts. The Company maintains a good relationship with several banks, including Policy Banks such as the Agricultural Development Bank of China and Commercial Banks such as the Industrial and Commercial Bank of China Nanxun Branch. As of 31 December 2023, it held an available credit facility of RMB4.1 billion. However, the Company's reliance on non-standard financing is high, accounting for around 32.4% of its total debt. Non-standard financing is not as transparent and stable as bank loans, which may cause related credit risks to the Company.

Rating Outlook

The stable outlook on HPIC'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 Lianshi Town of 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 improvement in debt management, asset quality and financing channels.

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 decreased in its strategic significance; 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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