

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Anhui Helu Industrial New City Construction Investment Co. Ltd., with stable outlook.**

Hong Kong, 25 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Anhui Helu Industrial New City Construction Investment Co. Ltd. (“HLIC” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of HLIC reflects Lujiang County Government’ strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Lujiang County Government’s capacity to provide support reflects Lujiang County’s ongoing economic and fiscal growth, but constrained by its relatively weak fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position as one of the key infrastructure construction platforms in Lujiang County and the sole regional developer in Helu Industrial New City; (2) good sustainability of public policy businesses; and (3) solid track record of receiving certain government support. However, the rating is constrained by the Company’s (1) moderate access to funding channels with limited financial flexibility; (2) rapid debt growth driven by large investment needs; and (3) weak asset liquidity.

### **Corporate Profile**

Established in 2021, HLIC, became one of the key local infrastructure investment and financing companies (“LIIFCs”) in Lujiang County, in order to accelerate the construction of the Helu Industrial New City. The Company is mainly responsible for infrastructure construction in Helu Industrial New City. It also engages in commercial activities, including industrial investment business, property leasing, park operation and self-operated project construction. As the end of 2023, the Finance Bureau of Lujiang County was the ultimate controller of the Company, holding 78.6% stakes of the Company and Agricultural Development Infrastructure Fund Co., Ltd. (“Agricultural Development Fund”) held the remaining. As of the same date, the registered capital of the Company was RMB2.5 billion.

### **Rating Rationale**

#### **Credit Strengths**

**Important infrastructure construction platform in Lujiang County and the sole regional developer in Helu Industrial New City.** As one of the key infrastructure construction entities in Lujiang County and the sole infrastructure construction entity in Helu Industrial New City, HLIC plays a vital role in public policy businesses in the region, undertaking the construction of infrastructure, municipal roads, resettlement housing, technology parks in Helu Industrial New City with strong regional franchise advantages, which provide significant strategic importance for the local government and benefits to the local social and economic development. Considering its strategic importance in in Lujiang County and Helu Industrial New City, we

believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Good sustainability of public policy businesses.** As the sole infrastructure construction entity in Helu Industrial New City, HLIC's infrastructure construction projects are crucial to local social and economic development, especially to local industrial development. The Company has sufficient construction projects in the pipelines, ensuring its sustainability of public policy businesses but exerting certain capital expenditure pressure.

**Solid track record of receiving certain government support.** HLIC has received recurring financial support, including financial subsidies, asset and capital injection from the Lujiang County Government to carry out its public mandates. Given HLIC's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

### Credit Challenges

**Moderate access to funding channels with limited financial flexibility.** The Company shows moderate access to funding as it mainly relies on bank loans. Meanwhile, the Company's exposure to non-standard financing is low, accounting for below 5% of total debt at end-2023. Given the Company's limited available credit facilities and relatively large outstanding investment needs on its infrastructure construction projects, we consider additional funding channel is needed, such as onshore and offshore debt capital market and increasing its credit facilities, to fulfil its large capital expenditure.

**Rapid debt growth driven by large investment needs.** The Company's total debt had increased from RMB0.7 billion at end-2021 to RMB4.2 billion at end-2023, with a relatively high total capitalization ratio of 48.2%. In addition, as the end of 2023, its short-term debt accounted for about 10.6% of its total debt, and cash to short-term debt ratio was 1.0x, indicating manageable debt servicing pressure in the short term.

**Weak asset liquidity.** The Company's total asset mainly consists of inventories and account receivables, which accounted for 83.5% of its total assets at end-2023. Inventories were mainly investment costs for infrastructure construction projects and land-use rights received from the local government, while receivables were mainly unreceived payments from the government agencies or other state-owned companies, all of which are considered low liquidity.

### Rating Outlook

The stable outlook on HLIC's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its dominant position in the development of Helu Industrial New City as the important infrastructure construction entity in Lujiang County.

**What could upgrade the rating?**

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved financing channels.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and increase 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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