CCXAP affirms Huzhou City Investment Development Group Co., Ltd.'s long-term credit rating at A_g, with stable outlook.

Hong Kong, 27 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of A_g of Huzhou City Investment Development Group Co., Ltd. ("HIDG" or the "Company"), with stable outlook.

The A_g long-term credit rating of Huzhou City Investment Development Group Co., Ltd. ("HIDG" or the "Company") reflects Huzhou Municipal Government's very strong capacity to provide support, and the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Huzhou Municipal Government's capacity to provide support reflects Huzhou City's geographic advantage, with ongoing economic growth and good fiscal stability. However, the capacity to provide support is constrained by its relatively weak debt profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong position in the urban infrastructure construction and public utility services of Huzhou City; (2) high sustainability of local public activities; (3) good track record of receiving ongoing government payments; and (4) good access to funding and sufficient standby liquidity. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset liquidity.

Corporate Profile

Founded in 1993, HIDG is the most important local infrastructure investment and financing companies ("LIIFC") as well as the largest state-owned operation platform in Huzhou City. The Company is mainly engaged in the urban infrastructure construction, water supply and gas supply services in Huzhou City. It has also participated in other commercial activities such as property development, trading, and property leasing business. The Company played a significant role in implementing the Huzhou Municipal Government's urban planning and development policies and have received strong financial and operational support from the Huzhou Municipal Government. As of 31 March 2024, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Huzhou Municipal Government ("Huzhou SASAC").

Rating Rationale

Credit Strengths

Strong position in the urban infrastructure construction and public utility services of Huzhou City. As the largest LIIFC by total assets in Huzhou City, HIDG continues to play a significant role in implementing the Huzhou Municipal Government's urban development plans, with diversified business structure and regional monopoly advantages. It is also the most primary public utility services provider in Huzhou City, with 95% market shares of water supply and gas supply in the region. Considering its strategic significance to the development of

Huzhou City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving ongoing government payments. As a significant state-owned enterprise wholly owned by and under the direct supervision of the Huzhou SASAC, HIDG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. The Huzhou Municipal Government has entered repurchase agreements with the Company for various urban infrastructure construction and affordable housing development projects, and regularly makes payments to the Company. Given its essential position in Huzhou City, we expect the local government will continue to support the Company in the future.

Good access to funding and sufficient standby liquidity. HIDG has good access to funding from banks and capital markets. The Company has sufficient standby liquidity. As of 31 March 2024, it had obtained total credit facilities of RMB53.8 billion from diversified domestic policy banks and commercial banks, with available amount of RMB27.2 billion. The Company also has strong market recognition in debt capital markets with robust refinancing capabilities and decreasing financing cost. The listing of Huzhou Gas on the Hong Kong Exchange has also broadened the Company's equity financing channels. The Company has low reliance on non-standard financing, accounting for less than 10% to total debt.

Credit Challenges

Medium exposure to commercial activities. HIDG's commercial businesses mainly include property development, trading, and property leasing businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 20% to 25% of its total assets. The Company's exposure to commercial businesses has increased due to the subsidiaries that engaged in labor services, culture and tourism businesses were transferred into the Company in 2023.

High debt leverage and moderate asset liquidity. HIDG has an increasing debt burden and a high debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's adjusted total debt increased from RMB78.8 billion at mid-2023 to RMB85.0 billion as of 31 March 2024, with a high total capitalization ratio of 63.4%. The Company's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total asset mainly consists of inventories and investment properties, both with weak liquidity.

Rating Outlook

The stable outlook on HIDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its essential position in the development of Huzhou City.

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 strengths the local government's willingness to support, such as improvement in debt leverage or assets 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

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