CCXAP affirms Huzhou Communications Investment 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 Communications Investment Group Co., Ltd. ("HCIG" or the "Company"), with stable outlook.

The A_g long-term credit rating of Huzhou Communications Investment Group Co., Ltd ("HCIG" or the "Company") reflects (1) Huzhou Municipal Government's very 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 Huzhou Municipal Government's capacity to provide support reflects Huzhou City's good 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 support, which is based on the Company's (1) essential role in transportation infrastructure construction and operation of Huzhou City; (2) good track record of receiving ongoing government payments; and (3) good access to funding. However, the rating is constrained by the Company's (1) high debt leverage; and (2) moderate asset liquidity.

Corporate Profile

Established in 1994, HCIG is the key investment and financing platform for transportation infrastructure construction in Huzhou City. The Company is mainly engaged in transportation infrastructure construction, including toll road construction and operation, railway construction as well as bus operations. In addition, the Company is also engaged in commercial businesses including engineering construction, energy business and trading. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Huzhou Municipal Government ("Huzhou SASAC") held 90% equity interests of HCIG, while Zhejiang Financial Development Co., Ltd held the remaining 10%. Huzhou SASAC is the ultimate shareholder of the Company.

Rating Rationale

Credit Strengths

Essential role in transportation infrastructure construction and operation of Huzhou City. HCIG maintains a monopoly position and holds strong regional importance in transportation construction and operation of Huzhou City. It is responsible for the investment, financing, and operation of transportation infrastructure in Huzhou City, as well as the operation and management of transportation-related industries.

Good track record of receiving ongoing government payments. As the important transportation infrastructure construction entity in Huzhou City, HCIG has good track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Considering the Company's exclusive position as the sole entity responsible for transportation infrastructure construction in Huzhou City, we expect the local government will give ongoing support to the Company in the future.

Good access to funding. As an important municipal platform in Huzhou City, HCIG has good access to funding from banks and bond market. The Company has sufficient standby liquidity. As of 31 March 2024, it had obtained total credit facilities of RMB54.0 billion from diversified domestic policy banks and commercial banks, with available amount of RMB30.0 billion. The Company also has good recognition in debt capital markets and declining financing cost. In addition, the Company has no non-standard financing.

Credit Challenges

High debt leverage. HCIG's total debt has continued to increase due to external financing needs. The Company's total debt increased from RMB35.8 billion at mid-2023 to RMB39.3 billion as of 31 March 2024, with a relatively high capitalization ratio of 51.1%. Given its continuous investment for high-speed railway and railways projects, we expect the Company's debt burden will continue to increase in the foreseeable future. Nevertheless, the Company's debt structure has improved, as reflected by its short-term debt to total debt ratio decreased to 16.8% as of 31 December 2023 compared to 18.5% as of 31 December 2022.

Moderate asset liquidity. The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 March 2024, the Company's total asset mainly consisted of inventories, fixed assets, and construction under progress, totally accounting for 59.0% of total assets. The inventories are land reserves; the fixed assets are self-owned road assets such as expressways; and the construction under progress mainly consist of construction costs for the road projects under construction, all with weak liquidity. Nevertheless, the toll road assets can provide stable income and cash flow to the Company.

Rating Outlook

The stable outlook on HCIG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its key role in transportation infrastructure construction of Huzhou City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengths the local government's willingness to provide 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 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 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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