

CCXAP affirms Zhejiang Changsanhe Holding 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 Zhejiang Changsanhe Holding Group Co., Ltd.’s (“ZCHG” or the “Company”) long-term credit rating at A_g-, with stable outlook.

The A_g- long-term credit rating of ZCHG reflects (1) Huzhou Municipal Government’s very strong capacity to provide support, and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Huzhou Municipal Government’s capacity to support reflects its good geographic advantage, with ongoing economic growth and outstanding fiscal quality. Yangtze River Delta Industrial Cooperation Zone (Huzhou) (“YICZ”) was initiated to support the implementation of the national strategy of Yangtze River Delta Integrated Development in Huzhou City, which is a key area for the development of strategic emerging industries.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) monopoly position in the regional development of YICZ; and (2) good track record of receiving ongoing government payments. However, the rating is constrained by the Company’s (1) relatively large capital expenditure pressure; (2) moderate assets liquidity; and (3) moderate access to funding.

Corporate Profile

Reorganized and established in 2022, ZCHG is authorized to be exclusively responsible for the development, construction, and investment of YICZ, mainly for the planning and development of 86.9 square kilometers of core area in the YICZ. The Company also engaged in commercial business such as assets leasing, trading of agricultural products and fund investment.

As of 31 December 2023, the State-owned Assets Supervision and Administration Commission of Huzhou Municipal People’s Government (“Huzhou SASAC”) was the Company’s ultimate controller, directly holding 47.2% of the Company’s shares, and indirectly holding 29.7% of the shares through the two companies, with a total shareholding of 76.9%. Anji County Tianzi Lake Agricultural Comprehensive Development Co., Ltd. held 23.1% of the Company’s shares. The Management Committee of YICZ has been delegated control and oversight over the Company’s daily operation and project investment by Huzhou SASAC.

Rating Rationale

Credit Strengths

Monopoly position in the development of YICZ. As the sole development and construction entity in YICZ, ZCHG is authorized to carry out various construction projects, such as municipal roads, infrastructure, and resettlement housing in the YICZ. Apart from engaging in construction projects, the Company also takes responsibility for public utilities and industrial operations within the YICZ. Throughout the 14th Five-Year Plan period, there are sufficient construction

projects in the pipeline, ensuring high business sustainability for the Company. Overall, as the sole development entity of YICZ, we expect that the Company's monopoly position will be maintained in the foreseeable future given the sustainability of its policy-related business.

Good track record of receiving ongoing government payments. ZCHG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. The Company received a capital injection from the government at the beginning of the reorganization, and its paid-in capital increased from RMB31.5 million in 2021 to RMB2.3 billion at the end of 2023. Due to its significant role in YICZ, we expect that the local government will continue to provide ongoing support to the Company in the future.

Credit Challenges

Relatively large capital expenditure pressure. ZCHG engaged in the construction of self-operated projects, such as a manufacturing industrial park project and an energy storage power station. As of 31 December 2023, it had 5 major self-operated projects under construction or planning. The Company primarily relies on self-raised funds for the construction of these projects, which causes a large pressure on its capital expenditure. The Company will achieve capital balance by generating rental and sales income. Given the large amount of construction in self-operating projects, it is anticipated that the Company will increase its commercial activities exposure in the future.

Moderate asset liquidity. The Company's asset liquidity is moderate as its total assets are mainly inventories with weak liquidity. As of 31 December 2023, the Company's inventories amounted to RMB9.8 billion, accounting for 42.2% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects and lands. In addition, as of 31 December 2023, the Company had pledged assets of RMB1.5 billion for loans, accounting for 6.4% of net assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Moderate access to funding. The Company has not entered the bond market, and its debt is solely sourced from bank loans, with an average interest rate of 4.4%. The Company plans to issue bonds on both onshore and offshore markets, aiming to expand its financing channels.

Rating Outlook

The stable outlook on ZCHG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its monopoly position in the development of YICZ.

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 access to funding or asset 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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