

Credit Opinion

29 November 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Huzhou Wuxing Talent Industrial Investment & Development Group Co. Ltd.

Surveillance credit rating report

CCXAP upgrades Huzhou Wuxing Talent Industrial Investment & Development Group Co. Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Huzhou Wuxing Talent Industrial Investment & Development Group Co. Ltd. ("WIID" or the "Company") to BBB_g from BBB_{g-}, with stable outlook. The rating upgrade is based on WIID's enhanced regional importance and higher policy role in Wuxing District after undertaking talent attraction responsibility. It also reflects the local government's willingness to provide support to the Company has increased.

The long-term credit rating of WIID reflects Wuxing District Government's strong capacity and extremely high willingness to provide support to the Company. Our assessment of Wuxing District Government's capacity to provide support reflects Wuxing District's good economic fundamentals, ranking first by gross regional product ("GRP") in Huzhou City.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) leading position in public projects and park development of Wuxing District; (2) good track record of receiving government payments; and (3) good funding access with multiple financing channels.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) high debt growth and short-term debt burden; and (3) medium contingent liability risk from external guarantees.

The stable outlook on WIID's rating reflects our expectation that the Wuxing District Government's capacity to provide support will be stable, and that the Company will maintain its strategic role in local infrastructure construction and land development in Wuxing District over the next 12 to 18 months.

Rating Drivers

- Leading position in public projects and park development of Wuxing District
- Medium exposure to commercial activities
- Good track record of receiving government payments
- High debt growth and short-term debt burden
- Moderate asset liquidity
- Multiple financing channels but dependence on non-standard financing
- Medium contingent liability risk from external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Wuxing District Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreased commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Wuxing District 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 reduced strategic significance, decreased government payments, or weakened funding capabilities.

Key Indicators

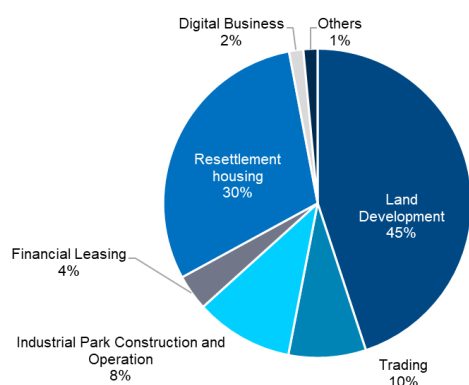
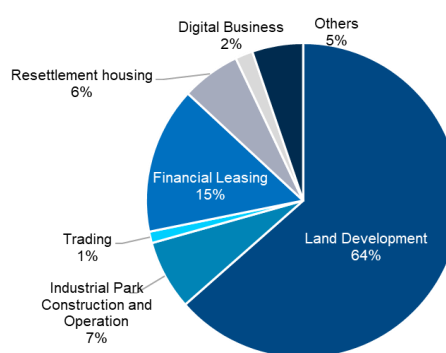
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	29.8	38.3	47.3	56.4
Total Equity (RMB billion)	11.3	14.6	17.1	20.1
Total Revenue (RMB billion)	2.1	2.7	2.4	1.4
Total Debt/Total Capital (%)	58.7	60.8	65.1	65.4

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Established in June 2013, WIID, formerly known as Huzhou Wuxing Industrial Investment Development Group Co., Ltd., has developed into an important investment and construction platform in Wuxing District and serves as the core operating entity responsible for infrastructure construction, land consolidation and development, as well as the sale of resettlement housing in Huzhou Modern Logistics Equipment High-tech Industrial Park ("Huzhou High-tech Park"), formerly known as Huzhou Southern Taihu High-tech Industrial Park. The Company also engages in commercial business such as trading, property leasing and financial leasing. Talent service business will also be added in 2023. As of 30 June 2023, Huzhou Wuxing State-owned Capital Supervision and Administration Service Centre ("Wuxing District SCSASC") held 100% shares of WIID. The Company is ultimately governed by the Finance Bureau of Wuxing District, Huzhou City.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 June 2023

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe the local government of Wuxing District has a strong capacity to provide support given Wuxing District's leadership as the first ranking in GRP in Huzhou City and the local government's moderate fiscal metrics.

Located in the northern part of Zhejiang Province, Huzhou City is the node city connecting the north and south areas of the Yangtze River Delta region. In 2022, Huzhou City recorded a GRP of RMB385.0 billion, increasing by 3.3% year-over-year ("YoY"). Huzhou City Government's general budgetary revenue increased from RMB33.7 billion in 2020 to RMB38.7 billion in 2022. However, due to tax reduction, the proportion of tax revenue dropped from 93.0% in 2020 to 88.7% in 2022. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 64.3% in 2022. However, Huzhou City's debt burden was large with an outstanding debt of RMB118.9 billion as end-2022, accounting for 30.9% of its GRP and 85.7% of its total fiscal revenue. In the first half of 2023, Huzhou's GRP increased by 5.7% YoY to RMB186.8 billion.

Exhibit 4. Key economic and fiscal indicators of Huzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	320.1	364.5	385.0
GRP Growth (%)	3.3	9.5	3.3
General Budgetary Revenue (RMB billion)	33.7	41.4	38.7
General Budgetary Expenditure (RMB billion)	48.4	52.4	60.2
Local Government Debt (RMB billion)	83.7	102.3	118.9

Source: Statistic Bureau of Huzhou City, CCXAP research

As the central municipal district of Huzhou City, Wuxing District is located at the intersection of Shanghai Metropolitan Circle, Hangzhou Metropolitan Circle and Taihu Lake Economic Circle. A large number of commercial properties and a large-scale headquarters gather in Wuxing District. In addition, Huzhou High-tech Park and Huzhou Economic and Technological Development Zone are also located in Wuxing District. The traditional pillar industry in Wuxing District is textile and garment industry, and five characteristic industrial clusters have been formed, including children's clothing, cashmere products, functional fibers, home textiles, and silk weaving. The intelligent equipment industry is one of the equipment manufacturing industries promoted by the Wuxing District Government, forming a complete industrial chain including equipment manufacturing, R&D and design, intelligent support, and integrated services.

In 2022, the GRP of the Wuxing District increased by 3.5% YoY to RMB119.5 billion, representing around 31.0% of Huzhou City's GRP. Wuxing District Government's general budgetary revenue increased from RMB5.1 billion in 2020 to RMB6.2 billion in 2022. Wuxing District has a strong fiscal balance but a weak debt profile, with a high general budgetary revenue to the general budgetary expenditure of 110.6% in 2022 and government debt to total fiscal revenue ratio of 119.4% as of 31 December 2022.

Exhibit 5. Key economic and fiscal indicators of Wuxing District

	2020FY	2021FY	2022FY
GRP (RMB billion)	100.1	85.3	119.5
GRP Growth (%)	3.5	9.7	3.5
General Budgetary Revenue (RMB billion)	5.1	6.3	6.2
General Budgetary Expenditure (RMB billion)	4.6	5.8	6.9
Local Government Debt (RMB billion)	10.0	14.8	17.1

Source: Statistic Bureau of Wuxing District, CCXAP research

Huzhou High-tech Park is a provincial-level high-tech zone located in the north of Zhejiang Province, with a total area of about 75 square kilometers. The key industries include intelligent equipment, new energy vehicles and parts, electronic information, and new materials. Relying on the advantages of transportation and location, Huzhou High-tech Park undertakes high-quality projects from Shanghai, Suzhou and other places. Huzhou High-tech Park achieved a GRP of RMB7.4 billion in 2022, a YoY increase of 5%.

Government's Willingness to Provide Support**Leading position in public projects and park development of Wuxing District**

There are four major local infrastructure investment and financing companies ("LIIFCs") supporting the development of Wuxing District. WIID is one of the most important industrial investment and infrastructure construction platforms in Wuxing District, making outstanding contributions to the urbanization and sustainable

economic development of Huzhou High-tech Park. Given the Company's important role in the local economic development, we expect WIID is unlikely to be replaced by other local SOEs in the foreseeable future.

As a leading state-owned enterprise, WIID has been commissioned by the Wuxing District Government and other local governmental entities and agencies to participate in a great number of public projects and provide public services in the Wuxing District. Since its establishment in June 2013, WIID has been committed to undertaking infrastructure construction projects as well as land development of Huzhou High-tech Park, improving the transportation network in Wuxing District. With the continuous industry park development and industry attraction, the Company will also undertake the responsibility of industry park operations, including self-operating projects and talent attraction, which can contribute higher revenue for WIID and secure WIID's leading position.

WIID conducts its infrastructure construction and land development business in the Huzhou High-tech Park primarily through its core subsidiary, Huzhou Shentai Construction Development Co., Ltd. ("Shentai Construction"). Both businesses adopted the agency construction model with the Management Committee of Huzhou High-tech Park. Upon completion of each project, the project is transferred back to the government. The buyback amount includes the total amount of actual investment, plus a certain percentage (not exceeding 20%) of the total amount of actual investment as the project management fee. As of 30 June 2023, the Company had 11 infrastructure construction projects under construction or planning, with a total investment of RMB2.7 billion, and an uninvested amount of RMB1.7 billion; the Company had 7 land consolidation projects under construction or planning, with a total investment of RMB1.0 billion and a total area of 867 mu, which were expected to be completed by 2024 and 2025. We expect that sufficient project reserves can support the Company's sustainable business development in the next 3 to 5 years.

The Company is also engaging in the construction and sales of resettlement housing in Huzhou High-tech Park. The Company signed a resettlement housing sales agreement with the Management Committee of Huzhou High-tech Park. After the resettlement housing project was completed, the Company recognized the revenue according to the sales price and the delivered area. As of 30 June 2023, the Company had 2 resettlement housing projects under construction, with an estimated total investment of RMB 1.5 billion.

We expect that the considerable projects in the pipelines can ensure the sustainability of the public policy business, but the overall project settlement cycle is generally long, and most of the funds need to be raised by the Company itself, which exerts large capital expenditure pressure on the Company.

Medium exposure to commercial activities

WIID's commercial businesses mainly include trading and property development. The Company's exposure to commercial businesses is moderate, accounting for around 20% of its total assets.

Trading business is one of the primary businesses of the Company. The Company is engaged in trading cathode copper and crude lead through its subsidiaries. In 2022, the Company generated revenue of RMB243.6 million from the trading business, accounting for 10.3% of its total revenue, but recording a low gross profit margin of 1.5%. In addition, the Company's high reliance on its top 3 customers and top 2 suppliers increased uncertainties in this business.

The Company conducts the property development and management business through Shentai Construction. Shentai Construction engages in the development, construction, operation and management of industrial parks, factories and offices. For construction projects, the Company sells the constructed buildings or leases the self-

owned properties to obtain income accordingly. However, income from this business is subject to uncertainty due to project construction and sales progress, and future investment in industrial park projects will further increase the Company's capital pressure. As of 30 June 2023, the Company has 10 properties under construction and planning, with a total construction area of 123.3 thousand square meters and uninvested of RMB5.7 billion.

The Company is also involved in the equity investment and financial leasing business. As of 30 June 2023, the Company's equity investment was RMB1.8 billion. Such businesses are mainly carried out to support the development of local industries, and the counterparties are mostly private-owned enterprises. In addition, according to the local government plan, the Company will be engaged in talent service business, mainly responsible for labor dispatch in Huzhou High-tech Park. The Company plans to acquire 300 acres of land to build projects related to talent service business, such as talent apartments. We expect that the government will provide strong support to the Company in terms of investment promotion and talent introduction in the future.

Good track record of receiving government payments

WIID has a proven track record of receiving government support in the form of capital injection, asset injection, special purpose bonds and financial subsidies. In 2022 and mid-2023, the Company received government subsidies of RMB24.8 million and RMB11.4 million, respectively. In 2020, the Wuxing District SCSASC transferred 100% of the equity of Shentai Construction and Huzhou South Taihu High-tech Park Development Management Co., Ltd. to the Company; the local government has also injected funds and assets into the Company. In 2021, the Company received a capital injection of RMB2.0 billion in total from the Wuxing District SCSASC. In 2022, the Company received special purpose bonds of RMB545.4 million from the local government as capital reserve.

From 2022 to mid-2023, the Company received RMB275.7 million for the agency construction projects and land consolidation from the Management Committee of Huzhou High-tech Park. We expect the local government will continue to provide ongoing support to the Company, given WIID's important role in the investment and construction of Wuxing District.

High debt growth and moderate asset liquidity

Due to continued financing for construction projects, WIID has demonstrated high debt growth in the past three years. Its total debt increased from RMB21.6 billion at end-2021 to RMB34.8 billion at mid-2023, with a total capitalization ratio of 65.4% as of 30 June 2023. In terms of debt structure, the short-term debt to total debt ratio decreased from 46.8% at end-2021 to 42.1% at mid-2023, indicating that its debt structure has improved with better debt management, but the Company still faces liquidity issues since the short-term debt burden is still very high.

As of 30 June 2023, the Company had a number of restricted assets such as land and properties, with a total amount of RMB6.9 billion, accounting for around 34.3% of its net assets. In addition, at mid-2023, the Company had accounts receivables of RMB6.3 billion and inventories of RMB19.9 billion, accounting for around 65.3% of its total assets. The high amount of restricted assets may undermine the Company's financing flexibility, which is credit-negative.

Multiple financing channels but dependence on non-standard financing

WIID has access to multiple financing channels, including bank loans and bond issuances. As of 30 June 2023, the Company has obtained a total of RMB30.8 billion in bank credit facilities, with an available undrawn amount

of RMB9.1 billion, indicating a sufficient liquidity buffer. In terms of direct financing, the Company had issued 4 private notes in the onshore debt market, with an outstanding amount of RMB3.4 billion as of 30 June 2023, with a coupon rate between 3.7% and 4.4%. The Company also has an outstanding amount of USD389.0 million in the offshore bond market. However, the Company is highly dependent on non-standard financing, with non-standard debts of RMB9.4 billion as of 30 June 2023, accounting for 30.3% of the total debt. WIID has a reasonable financing cost for non-standard financing, as the cost was around 6% as of 30 June 2023.

Medium contingent liability risk from external guarantees

WIID has medium exposure to contingent liabilities. As of 30 June 2023, the Company's external guarantee amount was RMB5.5 billion, accounting for 26.8% of its net assets, decreasing from 30.8% as of 30 June 2022. All of the external guarantees are provided to local state-owned enterprises in Huzhou City. The local state-owned enterprises have a strong ability to avoid liability risks, because most of these local state-owned enterprises are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable.

ESG Considerations

WIID assumes environmental risks through its infrastructure construction and land development projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, WIID has played a crucial role in the social welfare of Wuxing District by being involved in resettlement housing buildings.

In terms of corporate governance, WIID's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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