

## Credit Opinion

15 December 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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### Client Services

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## Hengyang High-tech Holding Group Co., Ltd.

### Initial credit rating report

### CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+

### to Hengyang High-tech Holding Group Co., Ltd., with stable outlook

#### Summary

The BBB<sub>g</sub>+

Our assessment of Hengyang Municipal Government's capacity to provide support reflects Hengyang City's ranking as the fourth largest prefecture-level city by gross regional product ("GRP") in Hunan Province, with ongoing growth in economic and fiscal strengths. In addition, Hengyang High-tech Zone ("Hengyang HTZ") is a national high-tech zone in Hunan Province approved by the State Council.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the most important entity for urban infrastructure construction in Hengyang HTZ; (2) good track of receiving government support; and (3) high sustainability for public policy businesses.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) fast debt growth, with large capital expenditure pressure; and (3) modest asset liquidity and profitability.

The stable outlook on HHHG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its status as the most important entity for urban infrastructure construction in Hengyang HTZ.

## Rating Drivers

- Most important entity for urban infrastructure construction in Hengyang HTZ
- High sustainability for public policy businesses
- Medium exposure to commercial activities
- Good track of receiving government support
- Fast debt growth, with large capital expenditure pressure
- Modest asset liquidity and profitability

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as strengthened regional significance or reduction in the exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	47.6	57.9	65.0	67.2
Total Equity (RMB billion)	19.5	24.3	27.1	27.5
Total Revenue (RMB billion)	3.0	3.2	3.4	2.7
Total Debt/Total Capital (%)	51.7	51.0	51.2	52.0

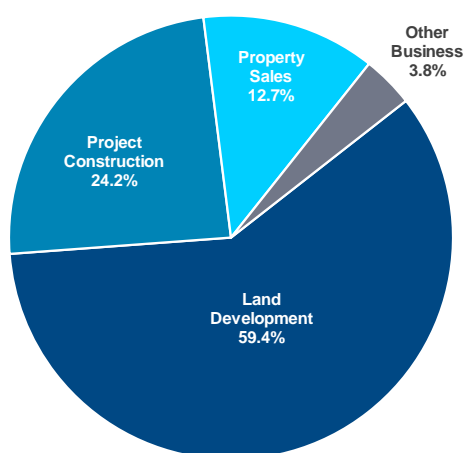
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## Corporate Profile

Established in 2015, HHHG is the most important entity for city infrastructure construction in Hengyang HTZ. The Company is mainly engaged in infrastructure construction and land development in Hengyang HTZ. It has also participated in commercial activities such as property sales and property leasing. As of 30 September 2023, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission of Hengyang City.

## Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Hengyang Municipal Government has a very strong capacity to provide support, given its ranking as the fourth largest prefecture-level city by GRP in Hunan Province, with ongoing growth in economic and fiscal strengths.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2022, the gross regional product ("GRP") of Hunan Province was RMB4.9 trillion, ranking 9<sup>th</sup> among all provinces in China. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB310.2 billion in 2022 from RMB325.1 billion in 2021, with tax revenue accounting for 64.6% of its general public budget revenue. In the first half year of 2023, the GRP of Hunan Province was RMB2.4 trillion, with a YoY growth rate of 3.6%. At the same time, general public budget revenue of Hunan Province achieved RMB176.8 billion, with a YoY growth rate of 11.2%.

Located in Hunan Province, Hengyang City has a relatively high economic importance and ranks 4<sup>th</sup> by GRP among all the prefecture-level cities in Hunan Province. In recent years, Hengyang City has formed several pillar industries including machinery, metallurgy, chemical industry, building materials, textile, food processing, etc. Benefiting from its good industrial base and sound economic development, Hengyang City's GRP increased from RMB350.9 billion in 2020 to RMB409.0 billion in 2022. Despite the impact of the COVID-19 pandemic, Hengyang City maintained a good economic growth rate of 5.2% in 2022, higher than national average level. General budgetary revenue increased from RMB17.3 billion in 2020 to RMB19.1 billion in 2022, with tax income accounting for 68.3% of its fiscal revenue in 2022. However, Hengyang has moderate fiscal-balance level, with 30.9% in 2022. At the end of 2022, Hengyang's local government debt balance was RMB112.6 billion, accounting for 27.5% of GRP. In the first half year of 2023, the GRP of Hengyang City was RMB198.5 billion, with a YoY growth rate of 3.1%. At the same time, general public budget revenue of Hengyang City achieved RMB16.0 billion, with a YoY growth rate of 2.4%.

**Exhibit 2. Key Economic and Fiscal Indicators of Hengyang City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	350.9	384.0	409.0
GRP Growth (%)	4.0	8.1	5.2
General Budgetary Revenue (RMB billion)	17.3	18.4	19.1
General Budgetary Expenditure (RMB billion)	57.8	56.5	61.8
Local Government Debt (RMB billion)	88.8	102.1	112.6

Source: Statistics Bureau of Hengyang City, CCXAP research

Approved by the State Council in 2012, Hengyang HTZ is national-level high-tech zone located in Hengyang City, covering an area of 137.4 square kilometers. Ranking 77<sup>th</sup> among 169 national high-tech zones in 2022, Hengyang HTZ has formed three pillar industries including intelligent manufacturing, electronic information and high-tech service industry. In 2022, the GRP of Hengyang HTZ amounted to RMB29.6 billion and general budgetary revenue achieved RMB481 million.

**Government's Willingness to Provide Support****Most important entity for urban infrastructure construction in Hengyang HTZ**

HHHG is the largest and most important infrastructure construction entity in Hengyang HTZ, conducting land development and infrastructure construction projects in Hengyang HTZ, Baisha Industrial Park, and Hengshan Science Park through the Company itself and its subsidiary Hengyang Baishazhou Development Construction and Investment Co Ltd. It is also one of the key infrastructure construction entities in Hengyang City, responsible for the construction of some major municipal projects. Considering that HHHG owns the most state-owned assets in the region and its status as the most important entity for urban infrastructure construction in Hengyang HTZ, we believe that the Company has most important position in the comprehensive development of the region and will not be easily replaced by other state-owned enterprises in the foreseeable future.

**High sustainability for public policy businesses**

As the most important entity for urban infrastructure construction in Hengyang HTZ, HHHG has participated in land development and infrastructure construction businesses. There are large amounts of construction projects in the pipeline from these public policy businesses, ensuring public policy business's sustainability, but exerting high capital expenditure pressure.

The Company undertakes infrastructure construction projects under agent construction model. The Company enters into agent construction agreements with Hengyang HTZ Management Committee, receiving 20% markup based on total investment amount after project completion. As of 30 September 2023, the Company had finished 12 infrastructure construction projects, with total investment amount of RMB945.7 million. Besides, HHHG had 14 infrastructure projects under construction or planning, with a total planned investment of RMB3.7 billion and an uninvested amount of RMB1.8 billion.

Entrusted by the Hengyang HTZ Management Committee, HHHG undertakes land development projects by self-raised funds. The Company will receive a return based on the actual costs plus 20% markup upon project completion. It has completed a number of projects, including land acquisition, land consolidation, and land development in Hengyang HTZ. As of 30 September 2023, HHHG had 4 land development under construction or planning, with a total planned investment of RMB11.3 billion and an uninvested amount of RMB3.0 billion, indicating high capital expenditure pressure. In addition, the business is susceptible to local land planning and construction progress.

### **Medium exposure to commercial activities**

In addition to public activities, HHHG is also engaged in commercial businesses, mainly including property sales and property leasing. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 20% of its total assets. However, commercial risk is moderate since property sales business is greatly affected by the changes in regional property market and industry policy. Besides, property leasing business exerts capital expenditure pressure to the Company.

HHHG's property sales business mainly involves construction and sales of residential housing and commercial complexes in Hengyang HTZ. The Company still has several large projects in the pipeline, causing high financing pressure. As of 30 September 2023, the Company had 6 real estate projects under construction, with total investment of RMB11.3 billion and uninvested amount of RMB7.2 billion. Besides, residential housing has relatively high selling rate, which was around 60% in total at end-2023Q3, due to close cooperation with regional development plan. However, the income from property development is susceptible to regional land market, which may cause fluctuations in revenue. In 2022, the revenue from property development increased by 33.4% YoY to RMB435.3 million.

HHHG has leased self-owned investment properties in Hengtang HTZ, such as industrial plants and industrial parks, which can provide stable and increasing rental income to the Company. In 2022, affected by the rent reduction policy during the pandemic, the revenue from property leasing decreased from RMB31.8 million in 2021 to RMB19.7 million, with relatively high gross profit margin of 23.9%. The Company still has large amounts of self-operated projects under construction or under planning, which will be sold out or leased after the projects are completed. As of 30 September 2023, the Company had 15 self-operated projects under construction or planning, with total investment amount of RMB20.9 billion and uninvested amount of RMB14.7 billion.

Apart from property sales and property leasing, the Company also has some other commercial businesses like cultural advertising, airport operations, fund management. All of those businesses have relatively small size and provide supplementary revenue to the Company.

### **Good track of receiving government support**

HHHG has regularly received support from the local government in the form of capital injection, government subsidies and project payments. The Company has received ongoing capital injection, significantly enhancing its capital strength. Its paid-in capital has increased from RMB5.0 million at end-2021 to RMB1.9 billion as of 30 September 2023. From 2020 to 2022, the Company received capital injection of RMB5.4 billion from the local government. From 2020 to 2023Q3, the Company totally received government subsidies of about RMB2.3 billion. Furthermore, the Company also regularly receives project payments from the local government, totaling RMB916.8 million over the past three years. Given its strong market position in undertaking public policy projects in Hengyang HTZ, we believe that the local government will continue to provide support to the Company.

### **Fast debt growth, with large capital expenditure pressure**

HHHG has a relatively fast debt growth over the past three years. The Company's total debt had increased from RMB20.9 billion at end-2020 to RMB29.8 billion at end-2023Q3, with total capitalization ratio of 52.0%. The increase in debt is mainly attributable to the ongoing external financing for the land development and infrastructure construction projects. In addition, as of 30 September 2023, the Company's short-term debt accounted for about 24.5% of total debt, indicating relatively reasonable debt structure. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

### **Modest asset liquidity and profitability**

HHHG's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, receivables, investment properties, and construction in progress, all with relatively low liquidity. The inventories and constructions in progress are development costs from land development and infrastructure construction projects, the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, and the investment properties are leasable properties, totally accounting for about 81.5% of total asset as of 30 September 2023. However, the Company has certain amount of cash reserves to support its daily operations and debt repayment, albeit insufficient to cover its short-term debts. As of 30 September 2023, its cash reserves amounted to RMB5.3 billion, accounting for about 8% of total asset. In addition, the investment properties can provide certain supplemental income to the Company.

### **Good access to funding**

HHHG has good access to funding from banks and capital markets. The Company has an approved line of credit from both commercial banks and policy banks, such as China Everbright Bank and China Development Bank. As of 30 September 2023, it had obtained total credit facilities of RMB21.9 billion, with available credit facilities of RMB6.7 billion. The Company and its subsidiaries also have good access to bond markets and has issued multiple bond products, such as PPNs, MTNs, CPs and private corporate bonds on onshore capital market, raising about RMB2.9 billion in 2023. In addition, HHHG has low exposure to non-standard financing, which accounted for 7.1% of its total debts at end-2023Q3.

### **ESG Considerations**

HHHG faces environmental risks because it has undertaken infrastructure construction and land development projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

HHHG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Hengyang HTZ. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

HHHG's governance considerations are also material as the Company is subject to oversight by the Hengyang Municipal Government and has to meet several 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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