

Credit Opinion

18 June 2024

Xinchang Urban Construction Investment Group Co., Ltd.

Surveillance credit rating report

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

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CCXAP affirms Xinchang Urban Construction Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Xinchang Urban Construction Investment Group Co., Ltd. (“XUCI” or the “Company”) reflects (1) Xinchang County Government’s 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 Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability, ranking one of the Top 100 Counties in China.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic role in the infrastructure construction and utility services in Xinchang County; and (2) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

The stable outlook on XUCI’s rating reflects our expectation that Xinchang County Government’s capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

Rating Drivers

- Important strategic role in the infrastructure construction and utility services in Xinchang County
- Medium exposure to commercial activities
- Good track record of receiving government payments
- Good access to funding
- High debt leverage and moderate asset quality

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang County 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 importance, material decrease in government payments, or deteriorated debt management.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	41.8	53.8	66.4
Total Equity (RMB billion)	18.1	21.8	25.5
Total Revenue (RMB billion)	2.4	2.5	1.5
Total Debt/Total Capital (%)	54.4	57.6	57.6

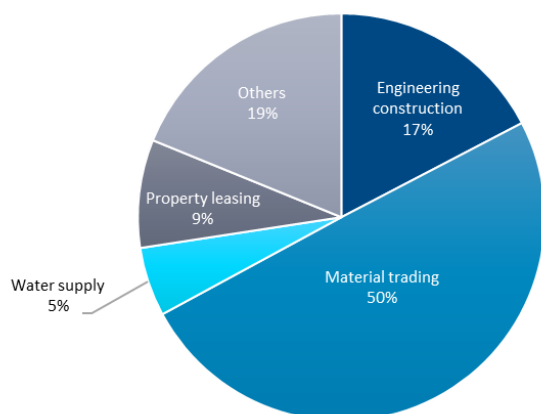
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2016, XUCI is one of the key subsidiaries of Zhejiang Xinchang Investment Development Co., Ltd. ("ZXID"). It plays an important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment. Besides, the Company also engages in some commercial activities such as engineering construction, material trading, car parking services and property leasing. In September 2023, ZXID transferred all its stake in the Company to Xinchang County City Construction Holdings Group Co., Ltd. ("XCCH"). As of 31 December 2023, the Company was wholly owned by XCCH and ultimate controlled by the State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County ("Xinchang SASAC").

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 31 December 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Xinchang County Government has a strong capacity to provide support given its ongoing economic growth, with relatively good investment potential and fiscal stability.

Zhejiang is one of the most developed provinces in China with GDP ranking as the 4th place across the country. In 2023, its GDP recorded a strong rebound with a growth rate higher than the national average level. Meanwhile, its general budgetary revenue also grew by 7.0% year-over-year ("YoY") in 2023, amounted to RMB860.0 billion

in 2023. Supported by its strong private sector especially internet-related industry, Zhejiang Province is expected to continue its economic momentum in 2024.

Shaoxing City was the fourth largest prefecture-level city in terms of gross regional product (“GRP”) as of end-2023, in Zhejiang Province with abundant tourism resources and well-developed industries. In 2023, it recorded a GRP of RMB779.1 billion with a YoY growth rate of 7.8%, which higher than provincial level. Shaoxing City has developed textile, machinery, and food industry as its pillar industries. Currently, new industries such as modern equipment, modern medicine, electronic information, and new materials also grow rapidly. Affected by the tax refund policy, Shaoxing Municipal Government’s general budgetary revenue increased from RMB54.0 billion in 2022 to RMB57.9 billion in 2023. The fiscal self-sufficiency was relatively good with an average fiscal balance ratio (general budgetary revenue/general budget expenditure) of 78.4% over the past three years. Shaoxing Municipal Government’s outstanding debt increased to RMB188.4 billion, accounting for 24.2% of GDP.

Exhibit 3. Key economic and fiscal indicators of Shaoxing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	679.5	735.1	779.1
GRP Growth (%)	8.7	4.4	7.8
General Budgetary Revenue (RMB billion)	60.4	54.0	57.9
General Budgetary Expenditure (RMB billion)	71.5	80.5	77.9
Local Government Debt (RMB billion)	143.7	168.0	188.4

Source: Statistic Bureau of Shaoxing City, CCXAP research

Xinchang County is located in the southern part of Shaoxing City, with geographical area of 1,213 square kilometers and population of about 427 thousand. Xinchang County has a relatively good investment potential, with 16 listed companies as of end-2023. According to the High-quality Development Index of China’s Small-and Medium-sized Cities in 2023, it ranked 64th by investment potential among top 100 counties/county-level cities in China. Healthcare and high-end manufacturing are the key pillar industries of Xinchang County, such as Chinese medicine, axle manufacturing, auto parts manufacturing and textile industries. With ongoing development of its pillar industries, Xinchang County has continued to grow and develop in recent years. From 2022 to 2023, the GRP of Xinchang County increased from RMB56.5 billion to RMB60.7 billion, representing a YoY growth of 8.0% in 2023. In 2023, supported by its resilient economic fundamentals, the general budgetary revenue of Xinchang County rose by 11.2% YoY to RMB4.6 billion, of which tax revenue accounting for 62.8%, indicating relatively good fiscal stability. However, Xinchang County has a moderate fiscal self-sufficiency, with a fiscal balance ratio of 62.8% in 2023. In 2023, Xinchang County Government recorded an outstanding debt of RMB19.4 billion, accounting for 31.9% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Xinchang County

	2021FY	2022FY	2023FY
GRP (RMB billion)	51.7	56.4	60.7
GRP Growth (%)	8.2	5.0	8.0
General Budgetary Revenue (RMB billion)	4.5	4.2	4.6
General Budgetary Expenditure (RMB billion)	7.0	7.1	7.4
Local Government Debt (RMB billion)	13.6	17.3	19.4

Source: Statistic Bureau of Xinchang County, CCXAP research

Government's Willingness to Provide Support

Important strategic role in the infrastructure construction and utility services in Xinchang County

ZXID is the largest LIIFC in terms of total assets in Xinchang County, which plays an essential and active role in implementing the Xinchang County Government's major strategic initiatives for urban planning, municipal construction and utility and facility operation. XUCI is one of the major subsidiaries of ZXID, responsible for various public-related activities such as infrastructure construction, land consolidation, water supply and sewage treatment. It has completed various significant infrastructure projects in Xinchang County. Given its important strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Entrusted by the local government, XUCI has undertaken a large amount of infrastructure construction projects, such as roads, schools, resettlement housings, and pipe networks. It continues to conduct infrastructure projects under agency construction model. As of 31 December 2023, the Company had 20 major infrastructure construction projects under construction, with a total estimated investment of RMB14.1 billion and an uninvested amount of RMB5.7 billion. The large number of projects in the pipeline can ensure the sustainability of the infrastructure construction business, but also exert high capital expenditure pressure on the Company.

XUCI is an important primary land developer in Old Town District of Xinchang County, including land leveling, resettlement and construction of urban facilities. It engages in land consolidation projects pursuant to the government's annual development plan. As of 31 December 2023, the Company had saleable land of about 83 thousand square meters, with a total book value of around RMB1.0 billion. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty to its land transfer income. Since 2019, the revenue of its land development business has not been recognized.

XUCI is the sole water supplier and sewage treatment provider in Xinchang County, indicating strong regional position. As of 31 December 2023, the Company had 3 water supply plants with a daily water supply capacity of 155,000 tons and 3 sewage treatment plant with a daily sewage treatment capacity of 225,000 tons. The Company is also engaged in hydroelectric generation business, but the revenue from this business is small and susceptible to the local rainfall. Given the public nature of public utility services, the Company continues to suffer losses from the utilities business and highly relies on government subsidies to cover the losses.

Medium exposure to commercial activities

In addition to public activities, XUCI is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider XUCI's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets.

XUCI's material trading business is demand-driven and mainly involves sale of steel, coal, and electrolytic copper to trading companies or construction companies. However, the upstream and downstream of material trading business is subject to certain concentration risks. As of 31 December 2023, the top 5 suppliers and customers accounted for about 86.0% and 72.9% of the procurement and sales, respectively. In addition, the profit of the business is low, with gross profit margin of around 3% in 2023.

The Company are constructing a large amount self-operating projects with self-raised fund, mainly including factories and office buildings. After these projects are completed, the Company will receive income through property leasing or sale. As of 31 December 2023, the Company had 4 major self-operating projects under construction, with a total investment amount of RMB4.5 billion and an outstanding amount of RMB2.4 billion.

In addition, XUCI also engages in state-owned property leasing business, such as offices, schools, hospitals, and commercial properties. The leased properties have provided stable rental income to the Company, which recorded rental income of RMB126.9 million in 2023. Besides, the Company also participates in parking lots management, sale of oil products, and food processing businesses. However, their income scale is relatively small, making little contribution to the Company's revenue and profit.

Good track record of receiving government payments

XUCI has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and cash injection. In 2023, the Company received government asset injection of RMB2.8 billion, including operating rights of car parks and construction materials, cars, and buildings. Besides, the Company also received interest subsidies of RMB472.4 million and financial subsidies of RMB626.7 million. The government payments have effectively supported the Company's profitability and daily operations. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

High debt leverage and moderate asset quality

With ongoing financing for its construction projects in recent years, XUCI has demonstrated a rapid debt growth and high debt leverage over the past year. The Company's total debt increased from RMB29.6 billion at end-2022 to RMB34.9 billion at end-2023, while its total capitalization maintained at around 57.6%. In 2023, the Company's short-term repayment pressure deepened. As of 31 December 2023, the Company's short-term debt accounted for 28.0% of its total debt (2022: 18.7%), while its cash to short-term debt ratio fell from 0.4x to 0.3x over the same period. We expect that, given its large future capital needs, the Company will maintain a relatively high debt leverage in the next 12 to 18 months.

XUCI has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2023, the Company's total asset mainly consisted of inventories and non-current assets, which totally accounted for 84.5% of its total asset. The inventories are mainly investment costs for infrastructure construction and land development projects, while the non-current assets are mainly fixed assets, investment properties, and intangible assets, which are considered low liquidity. Meanwhile, the amount of restricted asset was 2.4 billion as of end-2023, accounting for less than 4% of its total asset. Nevertheless, some of the non-current assets, such as rental properties, parking lot franchise, and sandstone mining rights, can generate cash flow for the Company.

Good access to funding

XUCI has good access to funding as reflected by its good banking relationships and access to debt capital markets, with bank loans accounting for about 62.9% and bonds accounting for about 33.7% of total debt at end-2023. The Company maintains good relationships with large commercial banks. As of 31 December 2023, it held total credit facilities of RMB27.6 billion, with unutilized amount of RMB14.4 billion. The Company has also issued various types of bond products, including PPNs and private corporate bonds. In 2023, the Company and its subsidiaries raised RMB1.5 billion from the onshore market. Additionally, the exposure to non-standard financing is low, accounting for around 3.4% of total debt.

Medium contingent risks arising from external guarantees

The Company bears certain contingent risks arising from the external guarantee, most of which are provided to local state-owned enterprises ("SOEs"). As of 31 December 2023, the Company had outstanding external

guarantees of RMB6.5 billion, representing 25.4% of its net assets. Though the amount of external guarantee increased as compared with 2022 (2022: 15.6% of net assets), we estimate most of these local SOEs are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable. However, in case a credit event occurs, the Company may still face certain contingent liability risks, which could negatively impact its credit quality.

ESG Considerations

XUCI bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Xinchang County. Demographic changes, public awareness, and social priorities shape government's target for XUCI, or affect the government's propensity to support the Company.

XUCI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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 \(July 2022\)](#).

Appendix

Exhibit 5. Peer Comparison

	Xinchang Urban Construction Investment Group Co., Ltd.	Zhejiang Xinchang Investment Development Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g +
Shareholder	Xinchang County City Construction Holdings Group Co., Ltd.	State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County
Positioning	An important subsidiary of ZXID, responsible for Old Town District of Xinchang County	The largest infrastructure investment and financing platform in the Xinchang County
Total Asset (RMB billion)	66.4	179.4
Total Equity (RMB billion)	25.5	61.5
Total Revenue (RMB billion)	1.5	3.8
Total Debt/Total Capital (%)	57.7	63.1

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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