

## Credit Opinion

27 June 2024

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

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## Huzhou Communications Investment Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Huzhou Communications Investment Group Co., Ltd.'s long-term credit rating at A<sub>g</sub>, with stable outlook.**

### Summary

The A<sub>g</sub> 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.

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.

## Rating Drivers

- Essential role in transportation construction and operation of Huzhou City
- Good track record of receiving ongoing government payments
- High debt leverage
- Moderate asset liquidity
- Good access to funding

## Rating Sensitivities

### 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 strengthens 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.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	73.6	83.4	92.7	94.8
Total Equity (RMB billion)	32.6	33.5	36.6	37.6
Total Revenue (RMB billion)	8.1	10.4	8.5	1.6
Total Debt/Total Capital (%)	48.3	51.2	52.0	51.1

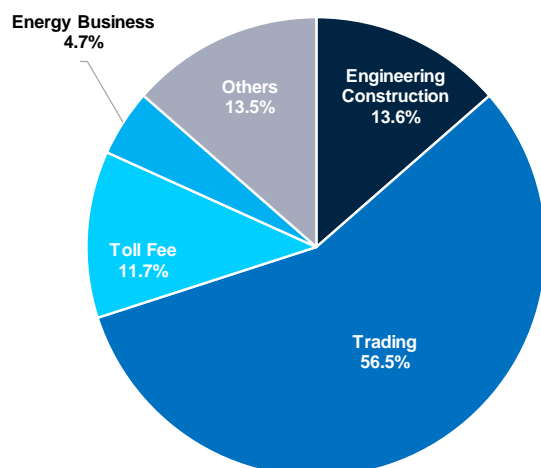
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## Corporate Profile

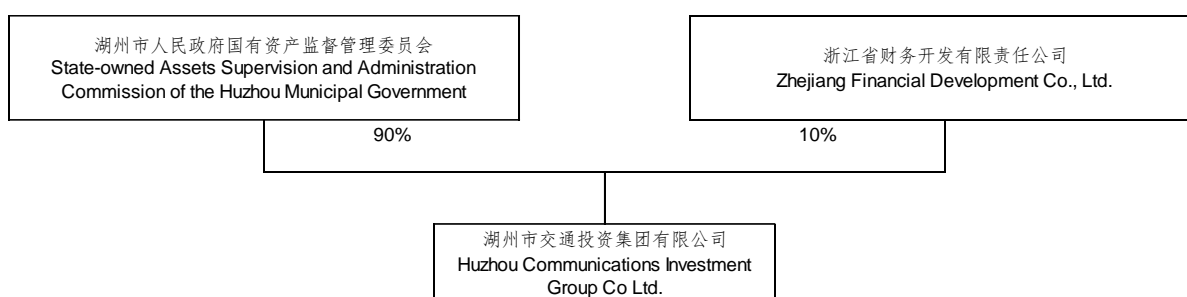
Established in 1994, HCIG is the key investment and financing platform for transportation infrastructure construction in Huzhou City. The Company is mainly engaged in transportation infrastructure construction, including toll road construction and operation, railway construction as well as bus operations. 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.

## Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

## Exhibit 2. Shareholding chart as of 31 March 2024



Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe that Huzhou Municipal Government has a very strong capacity to provide support as reflected by its good geographic advantage, with ongoing economic growth and good fiscal stability. However, the capacity to support is constrained by its relatively weak debt profile.

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. Huzhou City has four leading industries including information technology, high-end equipment, health and tourism. It has achieved a significant increase in gross regional product (“GRP”) over the past three years. In 2023, Huzhou City recorded a GRP of RMB401.5 billion, increasing by 5.8% year-over-year (“YoY”). Due to the economic recovery and industry growth, Huzhou Municipal Government’s general budgetary revenue increased from RMB38.7 billion in 2022 to RMB41.1 billion in 2023. It also has good fiscal stability, with tax income accounting for around 90% of general budgetary revenue for the past three years. Its fiscal balance remained at a moderate level, with general budgetary revenue to general budgetary expenditure ratio of 67.6% in 2023. However, Huzhou Municipal Government’s debt burden was large with an outstanding direct government debt of RMB136.4 billion at end-2023, accounting for 34.0% of its GRP and 98.6% of its total fiscal revenue.

**Exhibit 3. Key Economic and Fiscal Indicators of Huzhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	364.5	385.0	401.5
GRP Growth (%)	9.5	3.3	5.8
General Budgetary Revenue (RMB billion)	41.4	38.7	41.1
General Budgetary Expenditure (RMB billion)	52.4	60.2	60.7
Local Government Debt (RMB billion)	102.3	118.9	136.4

Source: Statistics Bureau of Huzhou City, CCXAP research

**Government Willingness to Provide Support****Essential role in transportation 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. Transportation projects under construction have high regional significance to Huzhou City, such as the Huzhou-Hangzhou high-speed road, which enhance the connectivity between Huzhou and Hangzhou, thereby greatly promoting the city's future development. In addition, the transportation business has high sustainability given the considerable construction projects in the pipeline. Although the large-scale investment amounts exert high capital pressure to the Company, the government special bonds can alleviate the investment pressure on the Company.

HCIG continued to be the sole transportation infrastructure construction entity in Huzhou City. At present, the Company operates 4 toll roads with total length of 171.7 kilometers, which provide stable income for the Company. It also invests in 2 toll roads through equity participation, receiving cash dividends of RMB156.0 million in 2023. Besides, as of 31 March 2024, the Company had 4 highway projects under construction or planning, with a total estimated investment of RMB52.1 billion and an uninvested amount of RMB34.0 billion. One of the projects is fully funded by government special bonds, with a total estimated investment of RMB17.0 billion. The large investment needs would exert high capital expenditure pressure to the Company.

As the main investor in the construction of high-speed railways in Huzhou City, HCIG continues to participate in the investment and construction of railway projects through equity participation. It has completed the investment and construction of three railways, among which the Nanjing-Hangzhou High-speed Railway has generated stable dividends to the Company. The Company has increased its holding equity of Nanjing-Hangzhou High-speed Railway to 41.7% in 2023. It was opened to traffic since July 2013, and received cash dividends totaling RMB590.0 million from 2021 to 2023. As of 31 March 2024, the Company had 3 railway projects under construction or planning with a total investment of RMB41.5 billion and uninvested amount of RMB26.8 billion, which will be partly funded by government special bonds.

The Company continues to provide public bus services within Wuxing District, Nanxun District, and South Taihu New Area of Huzhou City, with transportation network of 4,677 kilometers. In addition, due to its public welfare nature, the local government has provided subsidies to support the business operations, with amounts of RMB321.7 million in 2023.

**Low exposure to commercial activities**

HCIG continues to engage in commercial businesses including engineering construction, energy and commodities trading, with increase of investment in energy. We consider the Company's exposure to commercial businesses to be low, accounting for less than 10% of its total assets.

The Company conducts engineering construction business through its subsidiary Huzhou Transportation Engineering Construction Group Co., Ltd. ("Engineering Group"), the only construction company in Huzhou City with first-level qualification for highway project contracting. Engineering Group conducts the construction of transportation engineering projects in Huzhou City through bidding in the market. As of 31 March 2024, it had contract at hand with total value of RMB1.5 billion, which can ensure its business sustainability.

HCIG operates energy business through its subsidiary, covering the operation of gas stations and new energy charging piles. As of 31 March 2024, it had 12 gas stations cooperating with PetroChina and Sinopec, providing stable income and dividends to the Company. The Company's gas sales revenue amounted to RMB378.0 million in 2023. The Company has continuously invested in the construction of new energy charging piles and owned 11 bus charging stations as of 2024Q1. Benefited from fast growth in new energy charging, HCIG has achieved revenue of RMB18.0 million for this business in 2023.

The Company's trading business mainly involves trading of steel, cement, copper, and lead. This business continues to be the largest income source of the Company. In 2023, the revenue from trading business accounted for 56.5% of total revenue, but with low gross profit margin of 0.6%. In addition, this business is subject to concentration risks as the Company has high reliance on its top 5 customers and suppliers. The sales from the top five customers accounted for 99.7% of the total sales and the top five suppliers accounted for 56.0% of the total procurement in 2023.

### **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. Since 2021, the local government has transferred large amount of land assets and real properties, and equity interests of state-owned enterprises to the Company, significantly increasing its capital reserves. In 2023, the government has injected capitals of RMB609.8 million to the Company, in accordance to the agreements for the Huzhou-Hangzhou Railway and the Shanghai-Suzhou-Huzhou High-speed Railway projects. Besides, the local government has provided government subsidies of RMB902.0 million to the Company to support its operations in 2023. 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.

### **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.

In addition, the toll collection and income rights of the expressways of Zhejiang Jining Expressway Co., Ltd., Zhejiang Hangzhou-Changsha Expressway Co., Ltd., and Huzhou Hu'an Expressway Co., Ltd. are pledged as collaterals for bank loans, which may undermine the Company's financing flexibility.

### **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. From 2021 to 2024Q1, the Company raised RMB17.0 billion through the onshore debt market, with average coupon rate decreasing from 3.1% in 2023 to 2.68% in 2024, including various bond types such as corporate bonds, MTNs, SCPs and PPNs. In addition, the Company has no non-standard financing.

### **ESG Considerations**

HCIG assumes environmental risks through its infrastructure construction projects such as high-speed railways and expressway construction. 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, HCIG has played a crucial role in the social welfare of Huzhou City by involving in bus operations in Huzhou City.

In terms of corporate governance, HCIG'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 \(July 2022\)](#).

## Appendix

### Exhibit 4. Peer Comparison as of 2024Q1

	Huzhou City Investment Development Group Co., Ltd.	Huzhou Communications Investment Group Co Ltd.
Long-Term Credit Rating	A <sub>g</sub>	A <sub>g</sub>
Shareholder	Huzhou SASAC (100%)	Huzhou SASAC (90%); Zhejiang Financial Development Co., Ltd (10%)
Positioning	Responsible for urban infrastructure construction, water supply and gas supply services in Huzhou City.	Responsible for multiple transportation related projects including bus operations, high-speed rail construction investment and energy sales.
Total Asset (RMB billion)	148.9	94.8
Total Equity (RMB billion)	49.1	37.6
Total Revenue (RMB billion)	4.2	1.6
Total Debt/Total Capital (%)	63.4	51.1

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

Source: CCXAP research

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