

Credit Opinion

19 July 2024

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

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Amy Chen +852-2860 7140

Assistant Credit Analyst

amy_chen@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Hebei Bohai Guokong Urban Development Group Co., Ltd.

Update of operational and financial information

CCXAP affirms Hebei Bohai Guokong Urban Development Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Hebei Bohai Guokong Urban Development Group Co., Ltd. ("BHGK" or the "Company") reflects Bohai New Area Huanghua City Government's strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects that Bohai New Area Huanghua City ranked first among all districts and counties in Cangzhou City in terms of gross regional production ("GRP") and fiscal income, with good fiscal growth and self-sufficiency ability.

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 local state-owned enterprise in Bohai New Area Huanghua City; and (2) good track of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) high reliance on external financing and moderate access to funding.

The Stable outlook on BHGK's rating reflects our expectation that the local government's capacity to provide support will be stable; and the Company will maintain its key role in Bohai New Area Huanghua City over the next 12 to 18 months.

Rating Drivers

- Positioned as the most important local state-owned enterprise in Bohai New Area Huanghua City
- Medium exposure to commercial activities with large investment needs
- Good track record of receiving government support
- Moderate access to funding and high reliance on external financing

Rating Sensitivities

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 reduced exposure of commercial activities and more diversified financing channels.

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 reduced strategic importance, or a deterioration in its debt management.

Key Indicators

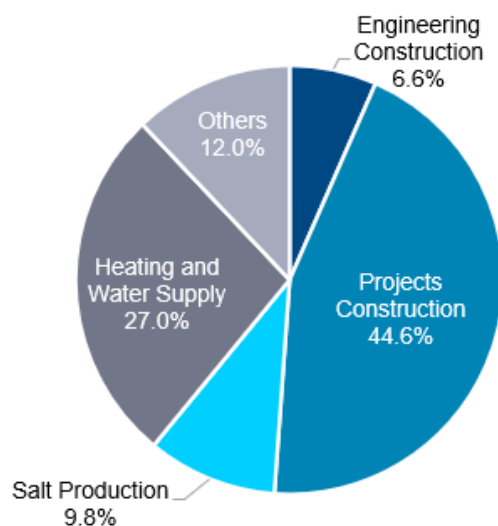
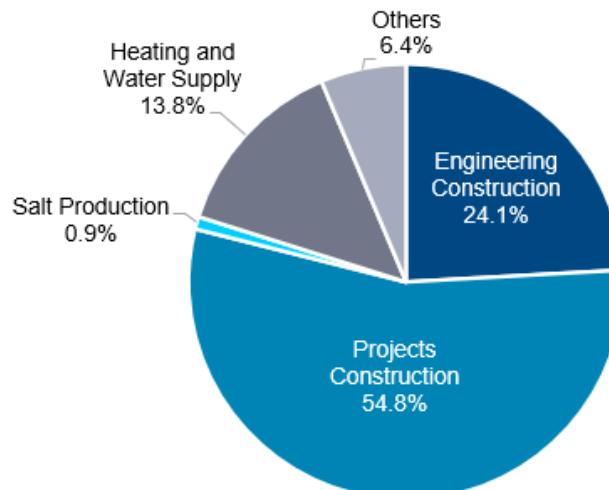
	2021FY	2022FY	2023FY
Total Assets (RMB billion)	1.5	28.2	32.5
Total Equity (RMB billion)	1.0	16.0	18.0
Total Revenue (RMB billion)	0.1	0.9	1.8
Total Debt/Total Capital (%)	0.0	31.9	32.6

All ratios and figures are calculated using CCXAP's adjustments based on the Company's 2021FY-2023FY audited financial reports issued on 25 June 2024, previously based on its 2021FY-2022FY pro forma financial reports and 2023H1 unaudited financial reports.

Source: Company data, CCXAP research

Corporate Profile

Established in 2017, BHGK is positioned as the most important local infrastructure investment and financing company ("LIIFC") in Bohai New Area Huanghua City. In September 2022, the Finance and Financial Supervision and Administration Bureau of Cangzhou Bohai New Area Huanghua City ("CBNAHC Finance Bureau") injected its 100% equity holdings of Huanghua City Investment Group Co., Ltd. ("HHCI") and Cangzhou Bokong Construction Development Co., Ltd. ("CBCD") into BHGK. BHGK is mainly responsible for the construction of municipal engineering, land development and consolidation, affordable housing development, ecological restoration, and comprehensive river management projects in Bohai New Area Huanghua City. In addition, it is also conducting commercial activities such as carrying out salt production and sales business and the construction and operation of self-operated projects. As of 31 December 2023, the CBNAHC Finance Bureau was the sole shareholder and ultimate controller of BHGK.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Bohai New Area Huanghua City Government has a strong capacity to provide support, based on its status as the first among all districts and counties in Cangzhou City in terms of GRP and fiscal income, with good fiscal growth and self-sufficiency ability.

Hebei Province is a northern province of China with a good location and rich resources such as coal, steel and marine resources. Together with the Bohai Sea, it encloses the direct-administered municipalities of Beijing and Tianjin. Although affected by the policy to reduce capacity in the coal and steel industries, Hebei Province's economic scale has steadily increased over the past five years. In 2023, Hebei Province recorded a GRP of RMB4,394.4 billion with a year-over-year ("YoY") growth rate of 5.5%, ranking 12th among all provinces in China. Hebei Province is expected to benefit from the promotion of national strategies including the coordinated development of the Beijing-Tianjin-Hebei region and the construction of Xiong'an New District in the future.

Cangzhou City is one of the prefecture-level cities in Hebei Province and an important part of the national strategy, the Hebei Coastal Area Development Plan, and the coastal urban zone of Hebei Province. Relying on its good industrial foundation and port advantages, Cangzhou City has formed five leading industries, including the petroleum processing industry, petroleum and natural gas mining industry, metal products industry, automobile manufacturing industry, and chemical raw materials and chemical products manufacturing industry. From 2021 to 2023, Cangzhou City's GRP increased steadily from RMB416.3 billion to RMB444.0 billion, ranking third in all the prefecture-level cities in Hebei Province. Cangzhou Municipal Government's general budgetary revenue is at a medium level compared with other prefecture-level cities in Hebei Province, while its fiscal balance ability is moderate. Over the past three years, the average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 45.5%. As of the end of 2023, Cangzhou Municipal Government's outstanding debt amounted to RMB100.6 billion, accounting for 22.7% of the GRP.

Exhibit 3. Key economic and fiscal indicators of Cangzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	416.3	438.8	444.0
GRP Growth (%)	7.0	4.2	5.8
General Budgetary Revenue (RMB billion)	30.0	31.7	34.3
General Budgetary Expenditure (RMB billion)	66.9	71.0	73.1
Local Government Debt (RMB billion)	66.1	80.6	100.6

Source: Cangzhou Municipal Government, CCXAP research

Located in the southeast of Hebei Province and around Beijing, Tianjin and the Bohai Sea, Bohai New Area Huanghua City is an important growth point along the coastal economic zone built by Hebei Province and Cangzhou City. In June 2022, the Hebei Provincial Government reformed the governance system of Bohai New Area and Huanghua City and integrated them to form one administrative region, Bohai New Area Huanghua City. There are 5 functional zones under the jurisdiction, which are Gangcheng Industrial Park, Cangzhou Lingang Economic and Technological Development Zone ("Lingang ETDZ"), Zhongjie Industrial Park, Nandagang Industrial Park and Huanghua City Economic and Technological Development Zone. Based on its location and port advantages and the opportunities of management system reform, Bohai New Area Huanghua City focuses on the construction of the coastal economic zone and has initially formed four leading industries including green chemical industry, biomedicine, equipment manufacturing and modern logistics, with well-known enterprises such as Hebei Xinhai Chemical Group Co., Ltd. and Beijing Xiehe Pharmaceutical Co., Ltd. In 2023, Bohai New Area Huanghua City achieved a GRP of RMB80.1 billion, ranking first among all districts/counties in Cangzhou City. It has good financial self-sufficiency with an average fiscal balance ratio of 78.4% over the past three years, but its non-tax revenue ratio is relatively high with an average of around 50%. The direct government debt burden is relatively high relative to its fiscal income and economic scale. At the end of 2023, the outstanding government debt increased by 23.6% to RMB31.8 billion, representing around 39.7% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Bohai New Area Huanghua City

	2021FY	2022FY	2023FY
GRP (RMB billion)	75.6	81.4	80.1
GRP Growth (%)	-	6.0	6.5
General Budgetary Revenue (RMB billion)	6.8	6.9	7.2
General Budgetary Expenditure (RMB billion)	9.1	8.6	9.0
Local Government Debt (RMB billion)	22.6	25.7	31.8

Note: 1.GRP, general budgetary revenue, and general budgetary expenditure in 2021 are the sum of those of Cangzhou Bohai New Area and Huanghua City;

2.Local government debt in 2021 is the sum of those of Huanghua City, Gangcheng Industrial Park, Lingang ETDZ, Zhongjie Industrial Park and Nandagang Industrial Park.

Source: Management Committee of Cangzhou Bohai New Area, Huanghua City Government, CCXAP research

Government's Willingness to Provide Support**Positioned as the most important local state-owned enterprise in Bohai New Area Huanghua City**

In September 2022, the Bohai New Area Huanghua City Government reorganized BHGK and positioned it as the most important local state-owned enterprise in Bohai New Area Huanghua City undertaking municipal engineering, land development and consolidation, affordable housing development, ecological restoration, and river management projects in the region. There are also other state-owned enterprises held by the Cangzhou Municipal Government operating in the region but each of them has a different position. Hebei State-owned

China-Czech Friendship Farm Group Co., Ltd. mainly operates in Zhongjie Industrial Park as the sole entity for infrastructures; and Hebei Bohai Investment Group Co., Ltd. is engaging in infrastructure construction, heat supply and sewage treatment in Gangcheng District and the Huanghua Port.

The project types of BHGK's infrastructure construction business mainly include municipal road networks, land consolidation, and shantytown renovation, and are mainly operated by its subsidiaries HHCI and CBCD. Specifically, as an important urban investment company in Huanghua City, HHCI is mainly responsible for the construction projects within Huanghua City, while CBCD's projects are mainly located in Gangcheng District and Lingang ETDZ. Under the agent construction model, BHGK signs the agent construction contract with the entrusting parties (mainly the state-owned enterprises in Bohai New Area Huanghua City), raises the funds itself or from financial allocations and charges payment equal to the investment cost plus a certain markup. As of 31 December 2023, the key infrastructure construction projects completed by BHGK mainly included core area relocation and comprehensive management projects, road and bridge projects, and beautiful countryside projects. Meanwhile, the Company has 5 key infrastructure construction projects under construction with a total investment amount of RMB6.9 billion and an uninvested amount of RMB1.8 billion, as well as 2 key projects under planning with a total planned investment amount of RMB730.0 million.

In order to realize the sustainable development of water supply in the entire Huanghua City, the Huanghua Municipal Water Affairs Bureau agreed to hand over water plants and related assets to the Company. According to the Company, when the restructure of water plants is completed, the Company is expected to charge water supply fees in accordance with standards approved by the local government. Meanwhile, BHGK also undertakes the Pipeline Network Engineering Renovation and Update Project with a total investment of RMB608 million.

Medium exposure to commercial activities with large investment needs

BHGK has also been engaged in diversified commercial activities, covering salt production and sales business, property leasing and management, heat and water supply in industrial parks, and it also conducts some self-operated projects. Based on our assessment, the Company's exposure to commercial business is medium with such assets accounting for around 30% of its total assets.

BHGK's salt production and sales business is mainly operated by its subsidiary, CBCD, and its main products are raw salt, edible salt, and industrial bromine. The revenue of CBCD from the business has been volatile and decreased from RMB237.3 million in 2022 to RMB178.4 million in 2023. The Company's raw salt production has fluctuated in recent years mainly due to the impact of the development of chemical parks, market demand and weather conditions. In addition, the customer concentration of raw salt sales is relatively high.

BHGK supplies heat and water to enterprises located in Lingang ETDZ and Gangcheng District with strong regional monopolistic advantages. It is the sole heat supply entity in the Lingang ETDZ. As of 31 December 2023, the Company sold heat to around 103 enterprises and owned around 55.0 kilometers of heating pipes, covering around 52.4 square kilometers. The Company's profit from the heating business is susceptible to price fluctuations in the coal market. BHGK's water supply business mainly covers the western area of Lingang ETDZ and several parts of Gangcheng District, including industrial raw water supply and seawater supply. The Company had 1 water plant with a designed supply capacity of 30,000 tons per day, covering an area of 8.1 square kilometers. In 2023, the Company sold 7.8 million tons of water and achieved a revenue of RMB123.4 million and a gross profit of RMB19.6 million. The Company's heat and water supply business is affected by the number of companies settled in the park as well as their operating conditions.

BHGK has taken advantage of location advantages or leading industry advantages to carry out self-operated project construction and operations. Key projects include industrial real estate development, housing development, and the construction of Huanghua Port Comprehensive Bonded Zone, and most of the projects are expected to achieve financial balance through sales or leasing. As of 31 December 2023, there were 6 key projects under construction with a total investment amount of RMB6.2 billion and an outstanding investment amount of RMB2.9 billion, as well as 2 projects under planning with a total budgeted investment of RMB1.9 billion. BHGK's self-operated projects have high capital requirements and large remaining investment scales, and subsequent capital balance and cost recovery cycles are volatile to the progress of local industrial development and changes in the policy environment.

BHGK's leasable assets include factories, business centers and shops. As of 31 December 2023, BHGK has a total leasable area of more than 19,300 square meters and the rental income in 2023 was RMB4.0 million. BHGK also provides property management services throughout Huanghua City. The Company achieved property management income of RMB5.0 million in 2023. The revenue of both property leasing and management business was small at this stage and the future development was closely related to the volatilities of the regional property market.

Good track record of receiving government support

As an important local state-owned enterprise in Bohai New Area Huanghua City, BHGK has a solid track record of receiving government support in various forms such as capital injection, equity transfer, financial subsidies, and government payment for construction projects. From 2022 to 2023, the local government has injected cash and state-owned enterprise equities into BHGK, increasing the Company's paid-in capital and capital reserves to RMB483.6 million and RMB17.3 billion at end-2023, respectively. Meanwhile, BHGK has received a total of around RMB47.3 million in subsidies during the same period. In addition, the Company has received repayments from infrastructure projects with a total of RMB633.0 million. However, the settlement process is slow and depends on local fiscal status, resulting in large amount of account receivables and large scale of completed and unsettled infrastructure projects in inventories at end-2023. Considering that BHGK will continue to undertake local infrastructure construction and urban development functions, the Company is expected to continuously receive government payment for its construction activities.

Given the Company's strategic importance in Bohai New Area Huanghua City, we believe that the local government will provide BHGK with ongoing operational and financial support.

Moderate access to funding and high reliance on external financing

BHGK's debt level expanded mainly contributed by the subsidiaries consolidated in 2022, and the ongoing investment in construction projects in 2023. As of 31 December 2023, the Company's total debt increased to RMB8.7 billion from RMB7.5 billion at end-2022. The total capitalization ratio, as measured by total debt to total capital, was maintained at a manageable level with support from the local government, which was 32.6% as of end-2023. The Company's debt structure is manageable with long-term debt accounting for more than 70% of total debt. However, the cash to short-term debt ratio was low at 0.2x, indicating a relatively high refinancing need to cover its short-term debt. Considering the large future investment of its projects, we expect the Company to rely on external financing and its debt leverage to increase in the next 12-18 months.

Exhibit 5. Key Projects under Construction and Planning as of 31 December 2023

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<i>Project under construction</i>				
Infrastructure Construction	5	6.9	5.1	1.8
Self-operated Projects	6	6.2	3.3	2.9
<i>Project under planning</i>				
Infrastructure Construction	2	0.7	-	0.7
Self-operated Projects	2	1.9	-	1.9
Total	15	15.7	8.4	7.3

Source: Company information, CCXAP Research

BHGK's funding channel is moderate with high reliance on indirect financing. As of 31 December 2023, the Company's bank loans accounted for around 85.9% of the total debt and direct financing accounted for around 5.9%. Its subsidiary, CBCD, issued one 1-year private corporate bond with a coupon rate of 5.3% in June 2023 to raise RMB500 million. As a local SOE, BHGK's direct financing ability would be relatively affected by the regional financing environment and policy changes. Meanwhile, its liquidity cushion was limited with an undrawn credit facility of RMB1.4 billion, while most of the facilities were provided by different banks such as policy banks, joint-stock commercial banks, and city commercial banks. The Company has manageable exposure to non-standard financing products which are mainly financial leasing. As of 31 December 2023, the Company's non-standard financing was RMB714.2 million, accounting for around 8.2% of the total debt.

ESG Considerations

BHGK faces environmental risks because it has undertaken construction business. 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.

BHGK bears social risks as it implements public policy initiatives by building public infrastructure in Bohai New Area Huanghua City. 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.

BHGK's governance considerations are also material as the Company is subject to oversight by the Bohai New Area Huanghua City Government and must 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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656