Credit Opinion

1 November 2023

Ratings	
Senior Unsecured Debt Rating	BBB_g-
Long-Term Credit Rating	BBB_g-
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Huaiyuan Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g- to Huaiyuan Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Huaiyuan Investment Group Co., Ltd.("HYIG" or the "Company") reflects (1) Huaiyuan County Government's relatively 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 Huaiyuan County Government's capacity to provide support reflects Huaiyuan County's gross regional production("GRP") ranking first among counties or districts in Bengbu City but constrained by its relatively weak fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong policy role in the development of Huaiyuan County; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) moderate debt management and moderate asset liquidity.

The stable outlook on HYIG's rating reflects our expectation that Huaiyuan County Government's capacity to provide support will remain stable, and that the Company will maintain its important position in the development of Huaiyuan County over the next 12 to 18 months.

Rating Drivers

- Strong policy role in the development of Huaiyuan County
- Medium exposure to commercial activities
- Good track record of receiving government support
- Moderate debt management and moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Huaiyuan County Government's ability 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 improved debt management and reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Huaiyuan County 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 deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	41.1	64.4	79.2	82.4
Total Equity (RMB billion)	21.0	35.9	36.4	36.4
Total Revenue (RMB billion)	1.8	2.7	3.7	1.9
Total Debt/Total Capital (%)	45.8	37.5	41.0	40.9

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

Source: CCXAP research

Corporate Profile

Founded in 2018, HYIG is the largest local infrastructure investment and financing company ("LIIFCs") in Huaiyuan County. The Company focuses on three sectors which are urban construction, equity investment and financial services after integrating several local LIIFCs and state-owned enterprises("SOE"). The Company is primarily engaging in diversified businesses, such as infrastructure construction, affordable housing and shantytown construction, industrial park construction, land consolidation, bridge toll operations, commercial property sales, and material sales. As of 30 June 2023, State-owned Assets Supervision and Administration Commission of Huaiyuan County People's Government was the ultimate controller of HYIG, directly holding 100% shares of the Company.

Exhibit 1. Shareholding chart as of 30 June 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

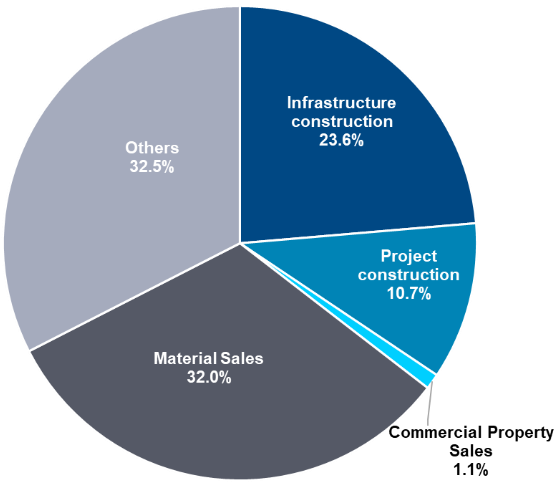
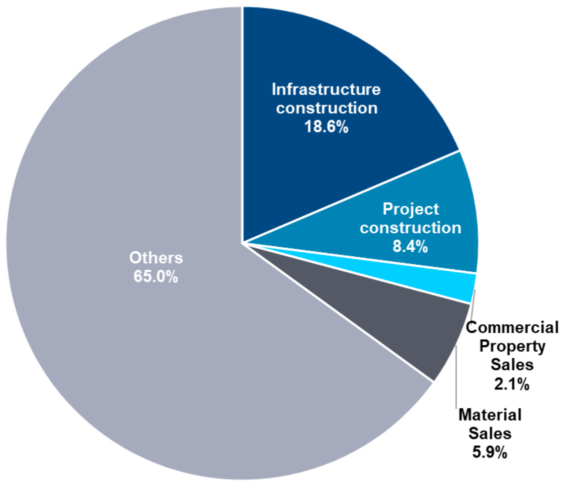


Exhibit 3. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Huaiyuan County Government has a relatively strong capacity to provide support to the Company, given Huaiyuan County's GRP ranking first among districts in Bengbu City. However, its fiscal metrics were relatively weak.

Located in the northern part of Anhui Province, Bengbu City is an important comprehensive transport hub in East China. Bengbu City has a good industrial base and has actively developed emerging industries in recent years including silicon-based new materials and new generation technology. Bengbu City has a relatively good economic strength but a moderate financial situation. From 2020 to 2022, its GRP decreased slightly from RMB208.2 billion to RMB202.1 billion influenced by external factors and the plan to move manufacturing enterprises into industrial parks. At the same time, the general budgetary revenue of Bengbu Municipal Government increased from RMB15.8 billion to RMB17.4 billion. The fiscal balance ratio of the Bengbu Municipal Government remains moderate. In 2022, the fiscal balance ratio (calculated by general budgetary revenue/general budgetary expenditure) was 48.4%. The debt profile of the Bengbu Municipal Government is relatively weak. At the end of 2022, the government debt balance increased to RMB62.2 billion, accounting for around 30.9% of GRP and around 147.7% of its total fiscal revenue.

Exhibit 4. Key economic and fiscal indicators of Bengbu City

	2020FY	2021FY	2022FY
GRP (RMB billion)	208.2	198.9	201.2
GRP Growth (%)	3.0	-2.1	2.0
General Budgetary Revenue (RMB billion)	15.8	16.7	17.4
General Budgetary Expenditure (RMB billion)	39.1	32.9	36.0
Local Government Debt (RMB billion)	45.5	55.6	62.2

Source: Bengbu Municipal Government, CCXAP research

Huaiyuan County is located in the northern part of Anhui Province and the middle reaches of the Huai River. It is the most populous county among the districts and counties in Bengbu City. The leading industries in Huaiyuan County include machinery and auto parts manufacturing, electronic products, deep processing of agricultural and sideline products, and resource regeneration and comprehensive utilisation of straw. Huaiyuan County's GRP declined in both 2020 and 2021 mainly due to the epidemic and industrial structure adjustment. In 2022, Huaiyuan County's GRP amounted to RMB35.7 billion, with YoY growth rate of 1.7%, ranking the top among all districts/counties in Bengbu City. Huaiyuan County Government's general budgetary revenue kept increasing over the past three past years, which increased to RMB2.6 billion in 2022 from RMB2.3 billion in 2020. In 2022, its fiscal balance ratio was 33.7% and stability ratio was around 50.4%, reflecting a high reliance on fiscal support from higher-tier governments. As of 31 December 2022, the outstanding debt of Huaiyuan County Government was RMB8.9 billion, accounting for 24.9% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Huaiyuan County

	2020FY	2021FY	2022FY
GRP (RMB billion)	42.5	35.6	35.7
GRP Growth (%)	-1.1	-12.0	1.7
General Budgetary Revenue (RMB billion)	2.3	2.5	2.6
General Budgetary Expenditure (RMB billion)	7.6	7.0	7.8
Local Government Debt (RMB billion)	4.8	7.9	8.9

Source: Huaiyuan County Government, CCXAP research

Government's Willingness to Provide Support

Strong policy role in the development of Huaiyuan County

HYIG is the largest LIIFC in Huaiyuan County in terms of total assets and plays an essential role in infrastructure construction. The Company is the major entity delegated by Huaiyuan County Government to carry out such businesses.

HYIG undertakes the functions of construction of affordable housing, shantytowns, industrial parks and roads in Huaiyuan County. The Company plays an important role in the economic development of Huaiyuan County by its contribution to the local infrastructures and capital attraction. HYIG is engaged in infrastructure construction within Huaiyuan County mainly through agent construction model. Under the agent construction model, the Company signs a construction agreement with the related parties and the related parties will pay the total cost plus a few percentage markups after examining the projects. As of 31 March 2023, the Company had a total of 17 projects under construction, including urban renewal, shantytown upgrading and road construction projects with a total investment of RMB16.3 billion and an outstanding amount of RMB4.1 billion. Meanwhile, the Company has 5 proposed projects with a total planned investment of RMB4.1 billion including shantytown construction projects and urban renewal projects. The Company has sufficient project reserves that support good stability and sustainability of the infrastructure construction business.

HYIG is also responsible for land consolidation in Huaiyuan County. As of 31 March 2023, the Company's land consolidation business had a total of 8 projects under construction, with a total of RMB2.1 billion invested in demolition and relocation payments for major projects. However, because of the untimely settlement of projects and fluctuation of land market, there is uncertainty in the sustainability of land consolidation business in the future.

Medium exposure to commercial activities

Apart from public activities, HYIG is also involved in a diversified range of commercial activities that contribute part of its revenue, including industrial park constructions, commercial property sales, and material sales. These commercial activities may also entail higher operational and business risks than public policy activities. At the same time, large expenditures will be incurred, which will exert financing pressure on the Company. Based on our estimates, the Company had medium exposure to commercial activities, which accounted for less than 30% of its total assets.

HYIG's industrial parks operation business is mostly through self-construction, which aims to support local industries and supplement its income. The Company has a large investment in the construction of industrial parks, and plans to use the rent collection to recover the pre-invested funds. These self-construction projects are highly related to local industrial development and the progress of investment attraction, which may bring greater operating uncertainties to this business. The Company had 8 key projects under construction, with a total investment of RMB8.1 billion and an outstanding amount of RMB3.5 billion; and 5 proposed projects with a total planned investment of RMB3.0 billion. Although the future investment amount is relatively large, funds from policy banks and special government bonds can alleviate part of the capital pressure.

The main property types for the Company's commercial property sales include the remaining marketable portion of affordable housing and the supporting commercial component. As of the end of March 2023, the total marketable area of the Company's major projects in the commercial property sales business was 63.2 thousand square meters, with a remaining marketable area of 28.3 thousand square meters. During the downturn of the domestic real estate market, the development of the Company's business may be under capital expenditure pressure and face certain uncertainties.

The material sales cover food grains, wine grains, and feed grains. The Company has both self-operated and storage business models. The revenue from material sales increased significantly in 2022, mainly due to the extension in sales varieties. In addition, the Company's sales channels have been broadened. The business was mainly from local customers before 2021 and gradually expanded to the whole country after 2022. The material sales business contributes a supplement to the Company's revenue, but the gross profit margin was low.

Good track record of receiving government support

As the largest LIIFC of Huaiyuan County, HYIG serves an important public policy function and is strategically important to local social and economic development. The Company has a solid track record of receiving support from the local government including capital injections, asset injections and operating subsidies. The Company received government subsidies of over RMB2.5 billion from 2020 to 2022. In 2021, the government injected assets including car parking spaces, seedlings, sand mining rights and drainage and irrigation stations into the

Company, enhancing its capital by RMB14.1 billion. At the same time, the government injected RMB125 million in cash as paid-in capital. Given the Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

Moderate debt management and moderate asset liquidity

Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. As of 30 June 2023, the Company's total debt increased to RMB25.2 billion from RMB17.7 billion at end-2020. As a result of the injection of assets and capital by the government, its capitalization ratio decreased from 45.8% to 40.9% during the same period. As of 30 June 2023, the Company had a reasonable debt structure with short-term debt accounting for 12.0% of total debt. However, the cash to short-term debt ratio was around 0.6x at 2023H1, indicating refinancing needs for its short-term debt.

HYIG's asset liquidity is considered as moderate and some assets are restricted, which decreases the Company's financial flexibility. As of 31 December 2022, the Company's total restricted amount of RMB8.4 billion, accounting for 23.2% of net assets, which are mostly due to borrowings. At the same time, other receivables accounted for 19.2% of total assets, mainly some account current which is less liquid. Among them, the Company has an account current amount of RMB1.7 billion with Anhui Dayu Construction and Development Group Co., Ltd. which is subject to execution. Intangible assets accounted for 17.8% of total assets, which are mainly sand mining and aquaculture rights with low liquidity.

HYIG has certain pressure on capital expenditure considering its large investment needs. As of 31 March 2023, the uninvested amount in projects under construction was around RMB7.6 billion, including self-operated projects and entrusted construction projects. We expected the Company to rely on external financing to meet its capital expenditure plan and the debt burden will keep increasing in the next 12 to 18 months.

Diversified source of funding

HYIG's large investment needs could be partially supported by its diversified source of funding. It maintains good relationships with large state-owned banks and commercial banks. As of 30 June 2023, the Company has obtained total bank credit facilities of RMB16.9 billion, with an unutilized amount of RMB13.3 billion. The Company also has good access to both onshore and offshore capital markets. The Company's subsidiary issued a USD bond of USD100 million in 2022. The Company also issued a tranche domestic bond with a total amount of RMB650.0 million in October 2023. The Company had relatively manageable exposure to non-standard financing as of 30 June 2023, with a proportion of less than 10% of total debt.

Certain exposure to contingent liabilities

HYIG's has certain exposure to external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company had external guarantees of RMB2.0 billion, accounting for 5.5% of its net assets. Most of the guarantees were provided to state-owned enterprises within Huaiyuan County, of which RMB273.1 million was for private-owned enterprises. Two of the guarantees are private-owned enterprises subject to execution. The Company bears contingent liability risk because none of the external guarantees have counter-guarantee clauses. Nevertheless, we estimate most of these local SOEs are likely to be supported by the local government when necessary, and contingent risk would be controllable.

ESG Considerations

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

HYIG bears social risks in implementing public policy initiatives through the building of public infrastructure in Huaiyuan County. 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.

HYIG's governance considerations are also material as the Company is subject to oversight by the Huaiyuan County Government and must meet several reporting requirements, reflecting its public policy role and status as a government-owned entity.

Structural Considerations

HYIG's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its strong policy role in the development of Huaiyuan County, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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