

Credit Opinion

23 May 2024

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

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Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd.'s long-term credit rating at BBB_g⁻, with stable outlook.

Summary

The BBB_g⁻ long-term credit rating of Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd. ("NXCD" or the "Company") reflects Nanxun District Government's strong capacity to provide support, and very high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Nanxun District Government's capacity to provide support reflects its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in infrastructure construction in Nanxun District, especially the Shanghai Innovation Cooperation Zone ("SICZ"); (2) high sustainability for public policy projects; and (3) track record of receiving government payments.

However, the rating is constrained by the Company's (1) increasing debt burden; (2) weak asset liquidity; and (3) moderate contingent liability risk associated with external guarantees.

The stable outlook on NXCD's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and that the Company will maintain its important roles in the infrastructure construction in Nanxun District including SICZ.

Rating Drivers

- Important role in infrastructure construction in Nanxun District including SICZ
- High sustainability for public policy projects
- Track record of receiving government payments
- Increasing debt burden and weak asset liquidity
- Access to funding mainly from commercial banks
- Moderate contingent liability risk associated with external guarantees.

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 improvement in debt management and asset quality.

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 decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

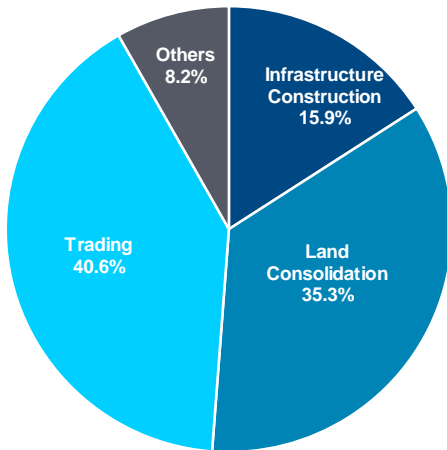
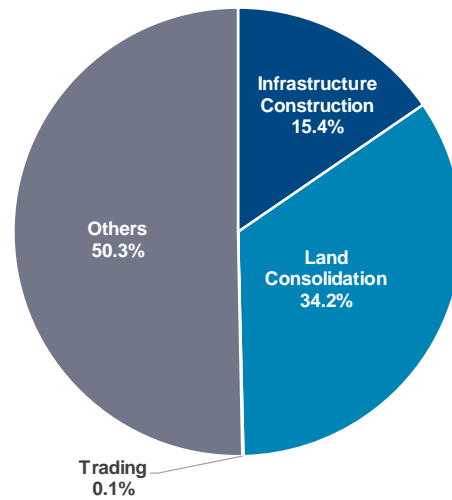
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	6.2	15.5	18.0
Total Equity (RMB billion)	3.3	7.1	7.3
Total Revenue (RMB billion)	0.4	0.5	0.9
Total Debt/Total Capital (%)	43.4	47.4	50.8

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

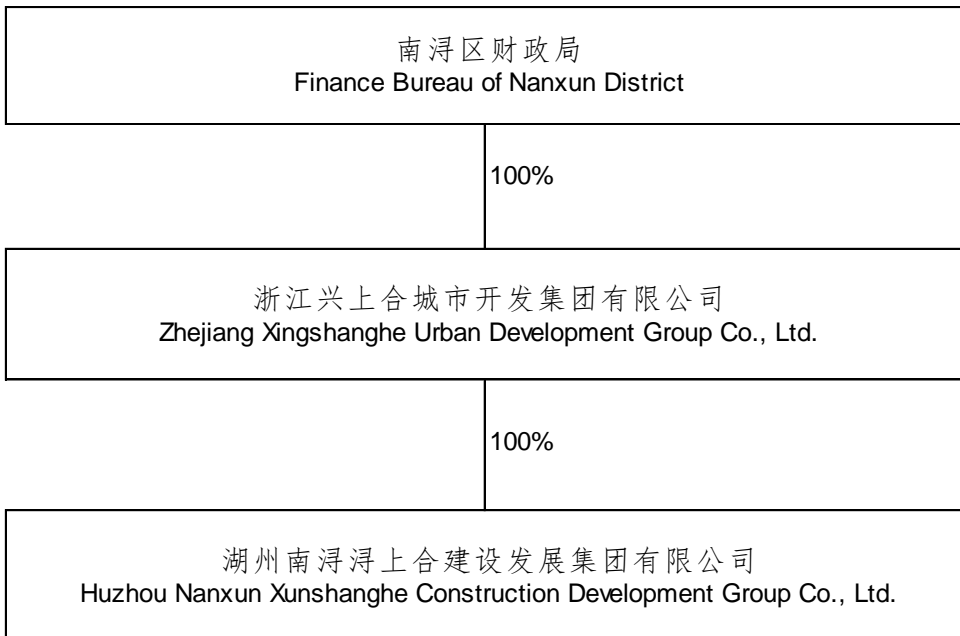
Source: Company data, CCXAP research

Corporate Profile

NXCD, formerly known as Huzhou Nanxun Zhenxun Investment Development Co., Ltd., was founded in 2010 with a registered and paid-in capital of RMB5.0 million. In 2022, the Company changed its name and was consolidated into Zhejiang Xingshanghe Urban Development Group Co., Ltd. ("ZXUD"). As of 31 December 2023, it is ultimately controlled by the Finance Bureau of Nanxun District, with a registered and paid-in capital of RMB600.0 million. As one of the local infrastructure investment and financing companies ("LIIFCs"), the Company is mainly engaged in infrastructure construction and land consolidation in the central urban area and suburbs of Nanxun District including SICZ. In addition, the Company also conducts commercial businesses such as trading, leasing, parking management and funeral services.

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding Chart as of 31 December 2023

Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that Nanxun District Government has a strong capacity to provide support as reflected by its good geographic advantage and improving economic fundamentals, but constrained by its modest fiscal 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 4. 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

Located in the east part of Huzhou City, Nanxun District is at the junction of Jiangsu and Zhejiang Province and is 100 kilometers away from Shanghai and Hangzhou City. It benefits from the industrial transfer and overflow of technical funds in Hangzhou Bay Industrial Belt and Yangtze River Delta Economic Circle, and develops its industrial system forming by two key industries, which are high-end equipment and information economy, and three traditional industries, including new metal material, green home, and modern textile, respectively. It is also rich in cultural and natural resources including one national “5A” scenic area, one national “4A” scenic area and several “3A” scenic areas. In 2023, Nanxun District recorded a GRP of RMB58.5 billion, increasing by 6.0% YoY. Benefiting from economic recovery and sound connection with Shanghai, its general budgetary revenue increased from RMB4.0 billion in 2022 to RMB4.2 billion in 2023. Government fund revenue is an important supplementary income of Nanxun District, but it is largely affected by the land market conditions and land usage planning. The government funds revenue decreased from RMB7.7 billion in 2021 to RMB5.3 billion in 2023. The fiscal balance of Nanxun District is moderate, with a general budgetary revenue/general budgetary expenditure ratio of 61.8% in 2023. In addition, Nanxun District’s debt profile is weak. Nanxun District’s governmental debt amounted to RMB14.6 billion at end-2023, representing 25.0% of GRP and 118.9% of total fiscal revenue.

Exhibit 5. Key Economic and Fiscal Indicators of Nanxun District

	2021FY	2022FY	2023FY
GRP (RMB billion)	52.9	55.9	58.5
GRP Growth (%)	8.5	3.5	6.0
General Budgetary Revenue (RMB billion)	4.3	4.0	4.2
General Budgetary Expenditure (RMB billion)	6.6	6.9	6.8
Local Government Debt (RMB billion)	9.2	12.4	14.6

Source: Statistics Bureau of Nanxun District, CCXAP research

In January 2022, SICZ was established with the approval of Huzhou Municipal Government and was planned to be located in the southeast of Nanxun District. With a total area of 30 kilometers, it is mainly divided into three districts, namely the revival of ancient towns, Shanghai Bay, and the high-speed railway of the high-tech zone. The planning period of SICZ is from 2022 to 2025, and it is estimated that it will be fully connected with the Shanghai metropolitan area by 2030, with the development level in the fields of industrial development, urban space, comprehensive transportation, and public services in sync with Shanghai. As an important entity of infrastructure construction in SICZ, the development of SICZ will provide opportunities for the Company.

Government Willingness to Provide Support

Important role in infrastructure construction in Nanxun District including SICZ

There are four major LIIFCs in Nanxun District to support local economic and industrial development, each with a clear position in the region. ZXUD, NXCD's parent company, is the largest LIIFC by total assets, focusing on land development, agent construction, and sewage treatment in Nanxun District, including SICZ. Huzhou Nanxun Transport Investment Group Co., Ltd undertakes transportation construction in the area; Huzhou Nanxun Cultural Tourism Development Group Co., Ltd. is responsible for the development and operation of Nanxun ancient town. Besides, Huzhou Nanxun Xinkai Construction Group Co., Ltd undertakes industrial park construction and operation in the Nanxun Economic and Technological Development Zone. Among all the four major LIIFCs, ZXUD is the most important infrastructure construction and state-owned assets operation entity in Nanxun District. As the subsidiary of ZXUD, NXCD serves as an important platform undertaking infrastructure construction and land consolidation in the central urban area and suburbs of Nanxun District including SICZ.

The Company's infrastructure construction projects adopt the agency model. Such projects are mainly the construction of roads, bridges, parks and water conservancy facilities. As of 31 December 2023, the Company has completed 4 key infrastructure construction projects with a total investment of around RMB581.5 million and payback amount of RMB647.3 million; and there were 5 infrastructure construction projects under construction or planning, with a total outstanding amount of around RMB5.5 billion. Overall, the infrastructure construction business is sustainable given the considerable construction projects in the pipeline. However, this business also exerts pressure on the Company's capital expenditure.

The Company conducts land consolidation projects through its subsidiaries. The Company's demolition project of the high-speed railway new urban area with a total area of 156.3 mu, which has been completed as of 30 June 2022. The settlement of this project has also been completed and the Company has received the settlement payment of RMB125.0 million. NXCD has been undertaking the relocation project of Xunsu expressway and Sutai expressway, with a total outstanding investment amount of RMB150 million. The sustainability of this business is poor due to the small size of investment needs and the absence of additional land consolidation projects.

Increasing exposure to commercial activities

NXCD also participated in commercial activities such as trading, leasing and parking management business. In 2023, the Company newly entered the funeral services business, providing funeral service within Nanxun Town area. We estimate that the Company had low commercial exposure with the proportion of commercial business assets being around 25% of its total assets.

The Company's trading business products mainly include radiata pine logs, cotton, ethylene glycol, and pure terephthalic acid. The trading business is the largest source of revenue for the Company, accounting for 40.6% of its total revenue in 2023, but recording a low gross profit margin of less than 1%. In addition, the Company's

high reliance on its top 4 customers and top 2 suppliers increased uncertainties in this business. Besides, the customers are all private enterprises, which increases certain risks to the trading business.

The Company also participated in the leasing business, including the rental of properties and parking spaces. The leasing business has a high gross profit but with a limited contribution to the total revenue. As of 31 December 2023, the Company had an industrial park project under construction, with an estimated investment of RMB2.5 billion. After the completion, the Company will achieve fund balancing by the lease and sale of the industrial park and the service charges of supporting facilities. The self-operated project is in the early stage of land acquisition and has a relatively long construction period. We expect that the project exerts capital expenditure pressure on the Company. Due to the economic downturn, the future revenue generated from this business is also uncertain. In addition, with the development of SICZ and the construction of self-operated project, the Company may increase its risk exposure to commercial business.

Track record of receiving government payments

NXCD has a proven track record of receiving government support in the form of capital injection, asset transfers, project payments and financial subsidies. In 2023, the Company received a cash injection of RMB78.1 million from its parent company; and according to the government equity transfer plan, the government transferred 2 companies into NXCD, named Huzhou Nanxun Kechuang Development and Construction Company and Huzhou Nanxun Xunan Funeral Service Company, increasing the Company's capital strength and broadening its business scope. During the same period, the Company received RMB72.7 million in government subsidies to support its operation. We expect the local government will continue to support the Company in the future given its important position in the region.

Increasing debt burden and weak asset liquidity

NXCD's total debt continued to increase due to ongoing investment needs. From 2022 to 2023, the Company's total debt increased from RMB6.4 billion to RMB7.5 billion, and its total capitalization ratio maintained at a relatively high level of around 50.8% in 2023. The Company has relatively high short-term debt repayment pressure since its short-term debt accounted for about 28.9% of total debt as of 31 December 2023, and the liquidity profile was weak with a cash-to-short-term debt ratio of around 0.3x at the same time, indicating that its cash balance was insufficient to cover its short-term debt.

NXCD's asset liquidity was weak as they were mainly inventories with weak liquidity. As of 31 December 2023, the inventories amounted to RMB7.7 billion, accounting for 42.8% of total assets, and mainly consisted of construction costs caused by infrastructure construction projects. Furthermore, as of 31 December 2023, the Company had pledged assets of RMB1.1 billion for loans, accounting for 15.2% of net assets. The Company also has large-scale transfers of assets from the government that has not yet processed the ownership certificates. The weak liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Access to funding mainly from commercial banks

Bank loans are the main source of funding for the Company. As of 31 December 2023, bank loans accounted for 92.2% of the Company's total debt. The Company maintains a good relationship with several policy and commercial banks, such as the Agricultural Development Bank of China and the Industrial and Commercial Bank of China Nanxun Branch. Most of large projects are funded with loans provided by the Agricultural Development Bank, at a low rate of around 4% to 4.8%. As of 31 December 2023, the Company's total credit facilities were RMB10.2 billion, of which the unutilized amount was about RMB5.6 billion. In addition, the

Company's reliance on non-standard financing is low, accounting for less than 10% of its total debt. NXCD also plans to tap the offshore debt capital markets to broaden its funding sources.

Moderate contingent liability risk associated with external guarantees

NXCD has moderate exposure to contingent liabilities. As of 31 December 2023, the Company's external guarantees were RMB1.4 billion, accounting for 18.8% of its net assets, all of which were provided to local state-owned enterprises and rural collective economic organizations. The overall risk of contingent liabilities is manageable. Nevertheless, if a credit event occurs in Nanxun District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

ESG Considerations

NXCD assumes environmental risks through its infrastructure construction projects. 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, NXCD has played a crucial role in the social welfare of Nanxun District by involving the construction of roads, bridges and water conservancy facilities projects.

In terms of corporate governance, NXCD'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 6. Peer Comparison

	Zhejiang Xingshanghe Urban Development Group Co., Ltd	Huzhou Nanxun District State-owned Assets Investment Holding Co., Ltd.	Huzhou Nanxun Xunshanghe Construction Development Group Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g	BBB _{g-}
Shareholder	Finance Bureau of Nanxun District	Zhejiang Xingshanghe Urban Development Group Co., Ltd	Zhejiang Xingshanghe Urban Development Group Co., Ltd
Positioning	The most important infrastructure construction and state-owned assets operation entity in Nanxun District	Key role in infrastructure construction and public services in Nanxun District	An important role in infrastructure construction in Nanxun District including SICZ
Total Asset (RMB billion)	106.7	82.4	18.0
Total Equity (RMB billion)	42.8	34.3	7.3
Total Revenue (RMB billion)	5.6	3.4	0.9
Total Debt/Total Capital (%)	60.0	58.4	50.8

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

Source: Company data, CCXAP research

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