

Credit Opinion

27 June 2024

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

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Huzhou City Investment Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Huzhou City Investment Development Group Co., Ltd's long-term credit rating at A_g, with stable outlook.

Summary

The A_g long-term credit rating of Huzhou City Investment Development Group Co., Ltd. ("HIDG" or the "Company") reflects Huzhou Municipal Government's very strong capacity to provide support, and 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 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 provide support, which is based on the Company's (1) strong position in the urban infrastructure construction and public utility services of Huzhou City; (2) high sustainability of local public activities; (3) good track record of receiving ongoing government payments; and (4) good access to funding and sufficient standby liquidity.

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

The stable outlook on HIDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its essential position in the development of Huzhou City.

Rating Drivers

- Strong position in the urban infrastructure construction and public utility services of Huzhou City
- High sustainability of local public activities
- Medium exposure to commercial activities
- Good track record of receiving ongoing government payments
- High debt leverage and moderate asset liquidity
- Good access to funding and sufficient standby liquidity

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 leverage or assets 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	2024Q1
Total Asset (RMB billion)	113.7	132.0	144.3	148.9
Total Equity (RMB billion)	39.9	45.1	48.9	49.1
Total Revenue (RMB billion)	15.2	16.4	17.4	4.2
Total Debt/Total Capital (%)	60.4	61.1	62.0	63.4

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 1993, HIDG is the most important local infrastructure investment and financing companies ("LIIFC") as well as the largest state-owned operation platform in Huzhou City. The Company is mainly engaged in the urban infrastructure construction, water supply and gas supply services in Huzhou City. It has also participated in other commercial activities such as property development, trading, and property leasing business. The Company played a significant role in implementing the Huzhou Municipal Government's urban planning and development policies and have received strong financial and operational support from the Huzhou Municipal Government. As of 31 March 2024, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Huzhou Municipal Government ("Huzhou SASAC").

Exhibit 1. Revenue structure in 2023

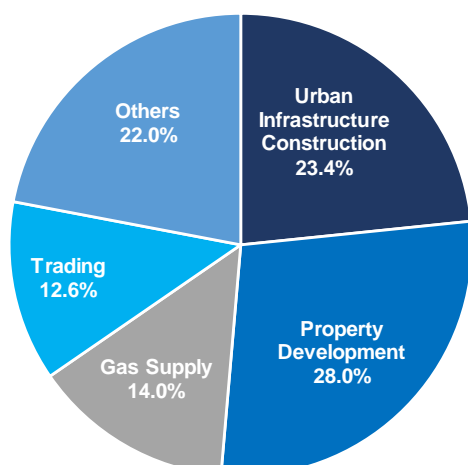
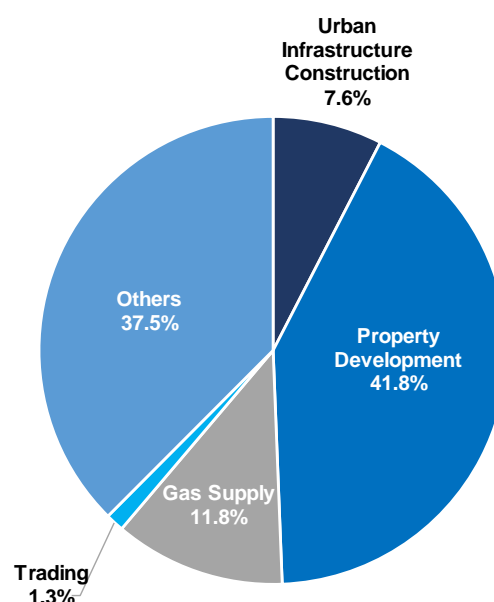


Exhibit 2. Gross profit structure in 2023



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

Strong position in the urban infrastructure construction and public utility services of Huzhou City

As the largest LIIFC by total assets in Huzhou City, HIDG continues to play a significant role in implementing the Huzhou Municipal Government's urban development plans, with diversified business structure and regional monopoly advantages. It is also the most primary public utility services provider in Huzhou City, with 95% market shares of water supply and gas supply in the region. As a primary government-authorized infrastructure constructor in Huzhou City, the Company has undertaken a wide variety of public policy projects within Huzhou City, making great contributions to the urbanization of the region. In 2023, Huzhou Cultural Tourism Operation Group Co., Ltd. has established with the subsequent plans of consolidating the cultural and tourism assets in the region, which will further broaden the Company's business scope. Considering its strategic significance to the development of Huzhou City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of local public activities

The Company's agency construction business is sustainable given considerable infrastructure construction projects under construction in the pipeline, but could also exert certain capital expenditure pressure to the Company.

The Company continues to undertake urban infrastructure construction projects including roads, bridges, buildings, parks, hospitals and medical institutions, drainage systems and other public facilities under agency construction model. Upon completion of construction, the entrusting parties will settle with the Company based on the project investment amount plus 10% markup. As of 31 March 2024, the Company had completed 12 infrastructure construction projects, with a total investment of RMB10.8 billion, and had received project payments of RMB7.6 billion, indicating good payment collection progress. Also, the Company had 20 infrastructure construction projects under construction, with total estimated investment of RMB30.3 billion and uninvested amount of around RMB7.2 billion. The construction funds are from self-raised fund of the Company or financed by the government.

As a key force for implementing housing policies and improve the housing conditions for low-income households in Huzhou City, HIDG continues to engage in the construction and development of affordable housing in the region. Upon completion of construction, the Company will sell the affordable houses to targeted residents based on government-guided prices. As of 31 March 2024, it had 3 affordable housing development projects under construction with total planned investment amount of RMB1.3 billion and uninvested amount of around RMB370.0 million.

The Company continues to participate in water supply business, involving tap water supply and wastewater treatment. As the sole water supplier in Huzhou City, the Company provides tap water to over one million residents in an area of approximately 1,570 square kilometers in Huzhou City via 4 water supply plants. The Company has total water supply capacity of 1.0 million tons/day, which has increased by 300 thousand tons/day compared with the previous year due to the renovation and expansion of the water plant. Besides, the Company is also the sole wastewater treatment provider in Huzhou City, carrying out the treatment and disposal of the entire domestic wastewater and certain industrial wastewater in the region via 4 wastewater treatment plants. Due to its monopoly status, water supply business provides stable income and cash flow to the Company.

The Company is one of the prominent piped natural gas distributors in Huzhou City, offering the most extensive package of gas supply services to about 286,500 households in most of Wuxing District and the whole Nanxun

District. The gas supply business is conducted through its subsidiaries including Huzhou Gas Co., Ltd. (“Huzhou Gas”, stock code: 6661.HK). As of 31 March 2024, the total length of the natural gas pipelines was over 1,559.8 kilometers (including that of Nanxun District). As the number of users expands, the Company's gas supply income has grown steadily in recent years. However, the profit margin of this business is highly susceptible to the fluctuation of natural gas prices. This business has provided a good supplement to the Company's revenue, which achieved a revenue of RMB2.4 billion in 2023, accounting for 14.0% of its total revenue. We expect the gas supply services business will continue to provide stable income to the Company.

Medium exposure to commercial activities

HIDG's commercial businesses mainly include property development, trading, and property leasing businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 20% to 25% of its total assets. The Company's exposure to commercial businesses has increased due to the subsidiaries that engaged in labor services, culture and tourism businesses were transferred into the Company in 2023.

The Company is responsible for the construction of CBD projects in the Changdong Area of South Taihu New Area, using self-operation mode. As of 31 March 2024, it had 4 CBD projects under construction with total estimated investment of RMB14.5 billion and uninvested amount of around RMB9.4 billion. Furthermore, the Company also has 3 industrial park projects under construction, with total estimated investment of RMB2.6 billion and uninvested amount of around RMB666.0 million. These projects have exerted large capital expenditure pressure to the Company. Nevertheless, we believe the Company will achieve financial balance through leasing and sale after completion of the projects.

The Company continues to develop commercial housing, targeting the mid to high-end retail market in Huzhou City. As of 31 March 2024, it had 13 commercial housing completed projects, with total investment of RMB7.2 billion and total sales of RMB6.0 billion. Besides, it had 9 commercial housing development projects under construction with total investment amount of RMB10.3 billion and uninvested amount of around RMB4.0 billion, exerting high capital expenditure pressure to the Company. It also had 3 commercial housing projects under planning, with invested amount of RMB787 million. However, commercial housing business is greatly susceptible to government planning and regional land market situation.

HIDG also continues to engage in property leasing and management business, including office buildings and commercial plazas, providing supplementary income to the Company and achieved revenue of RMB482.5 million in 2023. As of 31 March 2024, the Company had 5 leasable properties with total leasable area of 187 thousand square meters and occupancy rate over 90%.

The Company started its concrete sale business in 2020. The sales area mainly includes Huzhou urban area, Wuxing District, South Taihu New Area and Nanxun District. Its sales income decreased from RMB973.1 million in 2022 to RMB839.3 million in 2023 due to decrease in construction projects and demand for concrete.

Due to the transfer of Huzhou Leibo Human Resources Co., Ltd, HIDG started to engage in labor service since 2023. The Company provides labor matching service in local area and achieved revenue of RMB365.2 million in 2023.

Good track record of receiving ongoing government payments

As a significant state-owned enterprise wholly owned by and under the direct supervision of the Huzhou SASAC, HIDG has a proven track record of receiving government support in the form of capital injection, asset transfers,

and financial subsidies. Since establishment, the Company has regularly received capital injection from the government and its paid-in capital increased from RMB50 million to RMB8 billion as of 31 March 2024. In 2023, the Company has received the equity of Huzhou City Culture and Tourism Operation Group Co., Ltd and Huzhou Leibo Human Resources Service Co., Ltd from the local government, increasing capital reserve by approximately RMB3.0 billion and also broadening its business scope. Besides, the Company received government subsidies totally of RMB81.9 million in 2023 and 2024Q1. In addition, the government has also provided special bonds of totally RMB240.0 million to the Company during the same period to support its operation and project construction. The Huzhou Municipal Government has entered repurchase agreements with the Company for various urban infrastructure construction and affordable housing development projects, and regularly makes payments to the Company. Given its essential position in Huzhou City, we expect the local government will continue to support the Company in the future.

High debt leverage and moderate asset liquidity

HIDG has an increasing debt burden and a high debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's adjusted total debt increased from RMB78.8 billion at mid-2023 to RMB85.0 billion as of 31 March 2024, with a high total capitalization ratio of 63.4%. We expect the Company's debt leverage to remain at a high level, given its large capital expenditure needs for its extensive infrastructure construction projects, commercial housing projects and Changdong Area CBD project in the pipeline. Nevertheless, the Company has good debt structure, as reflected by its the short-term debt to total debt ratio of 14.2% as of 31 March 2024.

The Company's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total asset mainly consists of inventories and investment properties, both with weak liquidity. As of 31 March 2024, the Company's inventories amounted to RMB87.8 billion, accounting for 59.0% of total assets, and mainly consisted of construction costs caused by infrastructure construction and property projects. Nevertheless, it has investment properties with a value of RMB17.5 billion for leasing, providing stable supplementary income to the Company. In addition, as of 31 March 2024, the Company had pledged assets of RMB14.6 billion for loans, accounting for 9.8% of total assets.

Good access to funding and sufficient standby liquidity

HIDG has good access to funding from banks and capital markets. The Company has sufficient standby liquidity. As of 31 March 2024, it had obtained total credit facilities of RMB53.8 billion from diversified domestic policy banks and commercial banks, with available amount of RMB27.2 billion. The Company also has strong market recognition in debt capital markets with robust refinancing capabilities and decreasing financing cost. In 2023 and 2024Q1, the Company raised RMB23.7 billion through the onshore debt market, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. Additionally, the Company also has raised USD300.0 million through the offshore debt market during the same period. With high recognition in capital market, funding cost declines in 2024, with average coupon rate dropping to around 2.6% in 2024. The listing of Huzhou Gas on the Hong Kong Exchange has also broadened the Company's equity financing channels. The Company has low reliance on non-standard financing, accounting for less than 10% to total debt.

ESG Considerations

HIDG assumes environmental risks through its infrastructure construction projects as well as water and gas provision. 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, HIDG has played a crucial role in the social welfare of Huzhou City by involving the construction of ecological restoration and greening system project in Huzhou City.

In terms of corporate governance, HIDG'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 _g	A _g
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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