

CCXAP upgrades Huzhou Moganshan High-tech Group Co. Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 6 August 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Huzhou Moganshan High-tech Group Co. Ltd. (“HMHG” or the “Company”) to BBB_g+ from BBB_g, with stable outlook.

The rating upgrade is based on the improving regional strength of Deqing County, which strengthens the local government’s capacity to support the Company. It also reflects the Company’s strategic importance in the regional development of the Mogan Mountain of Huzhou High-tech Industry Development Zone (“MHTZ”).

The long-term credit rating of HMHG reflects Deqing County Government’s strong capacity to provide support, and extremely high willingness to provide support to the Company based on our assessment of the Company’s characteristics. Our assessment of Deqing County Government’s capacity to provide support reflects its good geographic advantage, with good economic development and fiscal strength.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the primary infrastructure construction and industrial industry park operation entity in the MHTZ; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) relatively high debt leverage driven by large development pipelines; and (3) moderate asset liquidity.

Corporate Profile

Established in 2018, HMHG is the important infrastructure construction and state-owned capital operation platform in the MHTZ and primarily undertakes land development and infrastructure construction projects. The Company has played an important role in furthering the social and economic development of MHTZ. It is also engaged in commercial activities including materials trading and industrial park development businesses. As of 31 March 2024, HMHG was wholly owned by Huzhou Moganshan State-owned Capital Holding Group Co., Ltd. (“HMSC”), and the MHTZ Management Committee remains the ultimate shareholder, which is a government organ of the Huzhou Municipal People’s Government and shares the same management team with the Deqing County Government.

Rating Rationale

Credit Strengths

Important role as the primary infrastructure construction and industrial park development operation entity in the MHTZ. As the primary infrastructure construction and industrial park development operation platform in the MHTZ, the Company has undertaken a number of infrastructure construction and industrial park development projects within MHTZ, making great contributions to the local social and economic development, benefiting investment

attraction and improving related industrial chains in the MHTZ. Considering its strategic importance in undertaking public policy projects in the region, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability for public policy projects. We believe the Company's large pipeline of public policy projects assigned by the local government has demonstrated its leading position in the development of MHTZ, ensuring its sustainability of public policy businesses but exerting certain capital expenditure pressure.

Good track record of receiving government payments. HMG has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. Given its important position in MHTZ, we expect the local government will continue to support the Company in the future.

Credit Challenges

Moderate exposure to commercial activities. HMG also participated in commercial activities such as industrial park development and materials trading businesses. We estimate that the Company had moderate commercial exposure with the proportion of commercial business assets being around 25% of its total assets. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks.

Relatively high debt leverage driven by large development pipelines. HMG's total debt continued to increase as its total debt increased from RMB50.1 billion at the end of 2022 to RMB61.2 billion as of 31 March 2024, and its total capitalization ratio was at a relatively high level of around 60.6%. Also, the Company is exposed to certain short-term debt repayment pressure as the short-term debt accounted for about 24.1% of total debt and the cash to short-term debt ratio was 0.5x.

Moderate asset liquidity. HMG's asset liquidity is moderate as reflected by the fact that its assets are primarily composed of inventories and receivables, both with relatively low liquidity. As of 31 March 2024, the inventories and the receivables amounted to RMB65.4 billion, accounting for 62.2% of total assets. Inventories are mainly development costs for infrastructure construction projects, while receivables are mainly unreceived payments from the agencies of the government or other state-owned companies.

Rating Outlook

The stable outlook on HMG'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 market position in the infrastructure construction and industrial park development in the MHTZ.

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 decreased in its strategic significance or increasing exposure to commercial activities.

Rating Methodology

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

Regulatory Disclosures

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