

CCXAP affirms Xuancheng High-tech Investment Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 15 August 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of BBB_g- of Xuancheng High-tech Investment Development Group Co., Ltd. (“XCHT” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of Xuancheng High-tech Investment Development Group Co., Ltd. (“XCHT” or the “Company”) reflects the local government's (1) strong capacity to provide support based on our assessment; and (2) very 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 Xuancheng City's 1st ranking status in GRP and Xuancheng High-tech Industrial Development Zone (“Xuancheng HIDZ”)’s status as a provincial high-tech economic zone in Xuancheng City with rapid economic development and good industrial output, which provides a good operation environment for the Company.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) dominant role as the most important local infrastructure investment and financing company (“LIIFC”) in Xuancheng HIDZ; and (2) good track record of receiving government support. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) rapid debt growth and weak asset liquidity; and (3) medium contingent liabilities risk.

Corporate Profile

Established in 2019, XCHT is the most important LIIFC in Xuancheng HIDZ, which plays an extremely important role to promote the development of local high-tech industries. XCHT is mainly responsible for the infrastructure construction in Xuancheng HIDZ. The Company also participates in different commercial activities, such as commodity trading, industrial parks construction and operation, property leasing, as well as green engineering. As of 31 March 2024, XCHT was wholly owned and controlled by the Management Committee of Xuancheng HIDZ.

Rating Rationale

Credit Strengths

Dominant role as the most important LIIFC in Xuancheng HIDZ. As the sole LIIFC under the Management Committee of Xuancheng HIDZ, XCHT plays a dominant role in the development, construction, and operation of Xuancheng HIDZ. Authorized by the local government, the Company is responsible for the infrastructure construction in Xuancheng HIDZ including municipal utility projects. XCHT implements a variety of infrastructure construction projects, focusing on developments such as roads, green spaces, and municipal projects within Xuancheng HIDZ, which significantly benefits people's livelihood and promotes the urbanization development in the district.

Good track record of receiving government support. The Company has a good track record of receiving support from the local government in the form of project payments, capital contributions, cash and asset injections, and fiscal subsidies to support its investments and operation of its businesses. Considering XCHT's strategic importance in promoting the development of Xuancheng HIDZ, we expect that the Company will receive support from the local government as needed.

Credit Challenges

Medium exposure to commercial activities. XCHT participates in different commercial activities, mainly including commodity trading and property leasing. XCHT's exposure to commercial activities is medium with the assets of commercial activities accounting for around 30% of total assets. The self-operated projects have exerted high capital expenditure pressure to the Company.

Rapid debt growth and weak asset liquidity. Driven by investment in infrastructure construction and self-operated projects, XCHT's total debt has grown rapidly. The Company's total debt had increased to RMB5.8 billion as of 31 March 2024 from RMB3.8 billion as the end of 2022. Meanwhile, its capitalization ratio increased from 45.9% to 52.4%. In addition, XCHT's asset liquidity is weak, which may undermine the Company's financial flexibility. As of 31 March 2024, its assets were primarily composed of inventories, receivables, and construction in progress, totally accounting for about 78% of total assets.

Medium contingent liabilities risk. The Company bears moderate contingent risk resulting from its external guarantees. As of 31 December 2023, the Company's external guarantees amounted to RMB1.3 billion, accounting for 24.0% of its net assets. The external guarantees are mainly provided to the state-owned enterprises ("SOEs") in Xuancheng City and Xuanzhou District. We estimate most of these local SOEs are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable.

Rating Outlook

The stable outlook on XCHT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its dominant role in the high-tech industrial development of Xuanzhou District and Xuancheng City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities and improved debt management.

What could downgrade the rating?



The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Peter Chong

Assistant Director of Credit Ratings

+852-2860 7124

peter_chong@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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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