

CCXAP affirms Hunan Miluo River Holding Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 12 September 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of BBB_g- of Hunan Miluo River Holding Group Co., Ltd (“MRHG” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of Hunan Miluo River Holding Group Co., Ltd (“MRHG” or the “Company”) reflects Miluo City Government’s (1) relatively strong capacity to provide support; and (2) extremely 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 Miluo City’s economic importance in Yueyang City with ongoing fiscal growth, but constrained by its weak fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the most important infrastructure construction entity in Miluo City; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) increasing debt leverage due to large project investments; and (3) medium exposure to external guarantees.

Corporate Profile

Founded in November 2017, MRHG is the most important local infrastructure investment and financing companies (“LIIFC”) in Miluo City. The Company is mainly engaged in the local infrastructure construction, land consolidation, and state-owned asset management in Miluo City. It has also participated in other commercial activities such as engineering construction, sandstone mining and sale, logistics, building materials trading, and modern service business. As of 31 March 2024, the Company was wholly owned and ultimately controlled by Miluo State-owned Assets Service Center.

Rating Rationale

Credit Strengths

Status as the most important infrastructure construction entity in Miluo City. There are two key LIIFCs in Miluo City, MRHG and Miluo City Cultural Tourism Group Co., Ltd (“MCTG”), each with clear positioning in the region. The Company has undertaken the majority of infrastructure construction projects in Miluo City, making substantial contributions to both the local economic and social development. Considering its status as the most important infrastructure construction entity in Miluo City, we believe that the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government support. MRHG has regularly received support from the local government in the form of government subsidies, project payments, capital injection, and asset transfers. In 2023, the Company had received government subsidy of

RMB44.3 million for its public policy businesses. Considering its status as the most important infrastructure construction entity in Miluo City, we believe that the local government will continue to provide strong support to the Company.

Credit Challenges

Moderate exposure to commercial activities. MRHG continues to engage in commercial activities such as trading business and engineering construction business, with diversified trading products ranging from building materials to sandstone. We consider the Company's exposure to commercial activities to be moderate, accounting for around 30% of its total assets.

Increasing debt leverage due to large project investments. MRHG's total debt leverage has continued to increase due to external financing for projects investment. Given its continuous investment for agent construction and land consolidation projects, we expect the Company's debt burden will continue to increase in the foreseeable future.

Medium exposure to external guarantees. MRHG has medium exposure to external guarantees, which has constrained its credit rating. However, we consider the Company's contingent liability risks to be manageable, as all of the external guarantees are provided to local state-owned enterprises and public institutions with counter-guarantee measures.

Rating Outlook

The stable outlook on MRHG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strong position in infrastructure construction of Miluo City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management or decrease in exposure to external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 material increase in exposure to external guarantee.

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

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

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.

Karissa Du

Credit Analyst

+852-2860 7126

karissa_du@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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