

CCXAP assigns first-time long-term credit rating of BBB_g- to Weihai Huantong Industrial Investment Group Co., Ltd., with stable outlook.

Hong Kong, 14 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Weihai Huantong Industrial Investment Group Co., Ltd. (“HTII” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of HTII reflects Huancui District 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 Huancui District Government’s capacity to support reflects its status as the development center of Weihai City and the seat of Weihai Municipal Government. It has relatively strong economic conditions and good fiscal metrics.

The rating also reflects the local government’s extremely high willingness to support, which is based on the Company’s (1) full ownership and ultimate control by the Huancui District Government; (2) essential role in infrastructure construction and regional development in Huancui District; (3) solid track record of receiving government supports; and (4) good access to funding from banks and domestic bond market. However, the Company’s rating is constrained by its (1) moderate exposure to commercial activities with increasing business risk related to property development; and (2) increasing debt level and moderate asset liquidity.

Corporate Profile

Founded in November 2021, HTII is the most important local infrastructure investment and financing company (“LIIFC”) in Huancui District, Weihai City, Shandong Province. After consolidation of the local state-owned enterprises, HTII has become the largest state-owned enterprise by asset size and the dominant platform engaged in infrastructure construction, land consolidation, and operation of state-owned assets in Huancui District. The Company also takes diversified commercial businesses such as leasing of sea area use rights, property projects, and parking lots, as well as commodity trading business. As of 31 December 2021, the Company was directly and wholly owned by the State-owned Assets Service Center of Huancui District and the Huancui District Government was the ultimate controller.

Rating Rationale

Credit Strengths

Essential role in infrastructure construction and regional development in Huancui District. HTII is the most important LIIFC delegated by the Huancui District Government to undertake local infrastructure construction, state-owned asset operations, and land consolidation. HTII has become the essential entity in the economic and industrial development of the region after the injection of the local state-owned enterprise, indicating an irreplaceable position.

Solid track record of receiving government supports. HTII and its subsidiaries have a solid track record of receiving recurring support from the Huancui District Government, including operating subsidies, capital and asset injections, debt swaps, and payments for infrastructure construction projects, in order to help the Company to meet its policy objectives and financial obligations. Considering the strategic role of HTII, we expect the Company will continue to receive support from the local government in the future, which will enhance its operating and capital strength accordingly, in our view.

Good access to funding from banks and domestic bond market. HTII and its subsidiaries' important strategic position in Huancui District are well-recognized by banks and domestic bond market. Most of the incremental debt consists of bank loan or domestic bond issuance proceeds. We believe HTII's acceptance will be higher whether it is the bond market or bank, taking into account the Company's important status as the largest platform in infrastructure construction of Huancui District.

Credit Challenges

Moderate exposure to commercial activities with increasing business risk related to property development. In addition to public activities, HTII is also involved in other commercial businesses such as leasing of sea area use rights, property projects, and parking lots, as well as commodity trading business. The Company is newly engaged in the development of commercial properties such as commercial complexes and residential projects that are purely market-oriented. The increasing investments in property-related commercial activities will inevitably expose the Company to higher business and financial risks.

Increasing debt level and moderate asset liquidity. HTII's total debts demonstrated rapid growth along with the ongoing investment in construction projects. The Company has a large investment plan in its diversified business including infrastructure construction, land consolidation, as well as commercial properties, which will exert certain capital pressure. The Company's total asset mainly consists of inventories and other receivables, all of which are considered low liquidity.

Rating Outlook

The stable outlook on HTII's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company's characteristics, such as its essential role in infrastructure construction and regional development in Huancui District, will remain largely unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Huancui District Government's capacity to support the Company strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and diversifies source of funding.

What could downgrade the rating?



The rating could be downgraded if (1) Huancui District 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 reduced strategic significance, deteriorated debt management, or decreased government payments.

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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