

# Hubei New Tongdu Urban Investment and Development Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	14 September 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hubei New Tongdu Urban Investment and Development Group Co., Ltd. (“HNTU” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Daye City (“the Daye government”) would provide strong support to HNTU if needed, in light of its indirect 100% ownership of HNTU through Hubei Optics Valley East State-owned Capital Investment and Operation Group Co., Ltd. (“HOVE”, ‘BBB’/Stable), HNTU’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for infrastructure construction and land consolidation in Daye, and the strong linkage between the Daye government and HNTU, including the control of the senior management, management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Daye government may face significant negative impact on its reputation and financing activities should HNTU encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that HNTU’s strategic importance would remain intact while the Daye government will continue to ensure HNTU’s stable operation.

### Rating Rationale

**Government’s Ownership and Supervision:** The Daye government indirectly holds 100% shares of HNTU through HOVE. Still, HNTU retains a high degree of independence in business operation and financial management, and the Daye government has strong direct control over HNTU, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, Daye government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** HNTU is an important entity responsible for land consolidation and infrastructure construction to support the development of Daye. Besides, HNTU is also the major water supplier in Daye. HNTU’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

**Ongoing Government Support:** HNTU received ongoing support in the forms of capital injections, asset injections and operational subsidies directly from the local government. The local government injected assets into HNTU, including properties and lands, amounting to RMB7.2 billion between 2020 and 2022. In addition, the company received operational subsidies of RMB362 million, RMB496 million and RMB466 million in 2020, 2021 and 2022, respectively. We expect HNTU to continue to receive ongoing support from the local government in the coming years, considering its strategic importance in Daye.

### Key Figures of Daye and HNTU (RMB billion)

Daye	2021	2022
GDP	75.1	86.1
GDP growth rate (%)	14.4	6.5
Budgetary revenue	4.1	4.1
Government fund	5.6	8.8
Transfer payment	2.7	3.1
Budgetary expenditure	7.9	7.8
HNTU	2021	2022
Asset	44.7	51.1
Equity	24.8	29.9
Revenue	1.2	2.1

Source: Public information, HNTU and Lianhe Global’s calculations

### Analysts

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

**Economy and Fiscal Condition of Daye:** Daye's GDP growth rate fluctuated in the past years, which recorded at -4.2%, 14.4% and 6.5% in 2020, 2021 and 2022, respectively. Daye's GDP amount reached RMB86.1 billion in 2022 and was ranked 1<sup>st</sup> out of six counties and districts of Huangshi City ("Huangshi"). The aggregate fiscal revenue of the Daye government mainly originated from the budget revenue and government fund income. The fiscal self-sufficiency of Daye was insufficient, and it recorded a budget deficit of 40.9% in 2022. On the other hand, the government fund income of Daye government increased significantly from RMB1.8 billion in 2020 to RMB8.8 billion in 2022.

The outstanding debt of the Daye government kept growing in the past few years. Nevertheless, its government debt ratio (total outstanding debt/ aggregate fiscal revenue) decreased from 78.6% in 2020 to 60.0% in 2022, mainly due to the faster growth of aggregate fiscal revenue.

**HNTU's Financial Profile:** HNTU's asset size grew to RMB51.9 billion at end-March 2023 from RMB44.2 billion at end-2020. This was mainly due to the surge in equity resulting from the local government's capital injection and asset injection. The company's total debt slightly increased to RMB19.0 billion at end-March 2023 from RMB17.9 billion at end-2020. Due to the larger increase in equity in 2022, the company's financial leverage, as measured by total debt/capitalization, decreased to 38.9% at end-March 2023 from 41.8% at end-2020.

**Tight liquidity and high non-traditional financing proportion:** The liquidity of HNTU was weak. At end-March 2023, the company had cash of RMB772.8 million (including restricted cash of RMB67.7 million). At the same time, the company had debt due within one year of RMB8.9 billion. Yet HNTU has access to various financing channels, including bank borrowings, offshore and onshore bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused credit lines of RMB2.3 billion at end-June 2023. We believe HNTU is highly rely on refinancing its short-term bank borrowing (c. RMB446 million at end-March 2023), obtaining additional financing sources and government support to maintain its liquidity.

In addition, a high level of HNTU's debts were related to non-traditional financings, including finance leasing, trust loans and other borrowings, which usually have higher financing costs and are subject to higher policy risks. Most of the non-traditional financings were borrowed by Hubei Jingchu Investment Development Co., Ltd. ("HJID"), the key operating subsidiary of HNTU. HNTU intends to replace those non-traditional financings with bank loans and gradually decrease the amount of non-traditional financings to below 10% of its total debts in the long term. Also, HNTU targets to control its total average financing cost below 7.5%.

## Rating Sensitivities

We would consider downgrading HNTU's rating if (1) there is perceived weakening in support from the Daye government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Daye government's ownership of HNTU, or (3) there is a downgrade in our internal credit assessment on the Daye government.

We would consider upgrading HNTU's rating if (1) there is strengthened support from the Daye government, or (2) there is an upgrade in our internal credit assessment on the Daye government.

## Operating Environment

### Economic Condition of Daye

Daye is a county-level city of Hubei Province and managed by Huangshi City. Daye is one of the top 100 industrial counties in China and ranked 57<sup>th</sup> in the list of Top 100 Counties in China in 2023, indicating advanced industrial capacity and profitability. Daye has jurisdiction over 10 towns, 4 communities, 1 national high-tech zone and 1 state-owned farm, with a total land area of c. 1,566 square kilometers. At end-2021, Daye had a residential population c. 0.9 million, with an urbanization rate of 62.0%.

Daye's GDP growth rate fluctuated in the past years, which recorded at -4.2%, 14.4% and 6.5% in 2020, 2021 and 2022, respectively. Daye's GDP amount reached RMB86.1 billion in 2022 and was ranked 1st out of all counties and districts of Huangshi. The economic growth of Daye was mainly boosted by the secondary and tertiary industries, which accounted for 57.7% and 35.5% of GDP in 2022, respectively.

#### Daye's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	64.7	75.1	86.1
-Primary industry (%)	8.0	7.3	6.8
-Secondary industry (%)	58.6	55.5	57.7
-Tertiary industry (%)	33.5	37.3	35.5
GDP growth rate (%)	-4.2	14.4	6.5
Fixed asset investment growth rate (%)	-18.3	30.7	19.5
Population (million)	0.9	0.9	0.9

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Daye

The aggregate fiscal revenue of the Daye government mainly originated from the budget revenue and government fund income. The budgetary revenue of the Daye government growth rate fluctuated in 2020 and 2021, and grew steadily in 2022, reaching RMB4.1 billion and indicating a year-on-year growth rate of 9.1% (excluding the influence of value-added tax credit refund). The tax revenue accounted for 71.2%-79.5% of the budgetary revenue in 2020-2022. The fiscal self-sufficiency of Daye was insufficient, and it recorded a budget deficit of 40.9% in 2022. On the other hand, the government fund income of Daye government increased significantly from RMB1.8 billion in 2020 to RMB8.8 billion in 2022.

The outstanding debt of the Daye government kept growing in the past few years and reached c. RMB10.6 billion at end-2022, including RMB5.2 billion general obligations and RMB5.5 billion special debt. Nevertheless, the debt ratio (total outstanding debt/ aggregate fiscal revenue) decreased from 78.6% in 2020 to 60.0% in 2022, mainly due to the faster growth of aggregate fiscal revenue.

### Daye's Fiscal Conditions

(RMB billion)	2020	2021	2022
Budgetary revenue	2.7	4.1	4.1
Budgetary revenue growth rate (%)	-37.2	50.2	9.1
Tax revenue	1.9	3.0	4.6
Tax revenue (% of budgetary revenue)	71.2	74.8	75.3
Government fund income	1.8	5.6	8.8
Transfer payment	5.1	2.7	3.1
<b>Aggregate revenue</b>	<b>9.6</b>	<b>12.4</b>	<b>16.1</b>
Budgetary expenditure	8.6	7.9	7.8
Budget deficit <sup>1</sup> (%)	-219.8	-95.2	-40.9

<sup>1</sup> Budget deficit = (1 - budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Full Government Ownership

HNTU, formerly known as Daye New Tongdu City Development Investment Group Co., Ltd., was established in May 2019 by Daye State-owned Assets Operation Co., Ltd. with an initial registered capital of RMB500 million. After an array of capital injections and equity transfers, the company's registered capital and paid-in capital were RMB3 billion and RMB1.0 billion, respectively, at end-March 2023. The ultimate controller of the company is the State-owned Assets Supervision and Administration Office of Daye ("Daye SASAO").

## Strategic Importance and Government Linkage

### Strategic Importance of HNTU to Daye

HNTU is an important entity responsible for land consolidation and infrastructure construction to support the development of Daye. Besides, HNTU is also the major water supplier to the local residents in Daye. HNTU's business operations and strategic planning have been aligned with the local government's economic and social development policies.

### Strong Linkage with the Local Government

The Daye government indirectly holds 100% shares of HNTU through HOVE. Still, HNTU retains a high degree of independence in business operation and financial management from HOVE, and the Daye government has strong direct control over HNTU, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, Daye government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

### Ongoing Government Support

HNTU received ongoing support in the forms of capital injections, asset injections and operational subsidies directly from the local government. The local government injected assets into HNTU, including properties and lands, amounting to RMB5.9 billion between 2020 and 2022.

In addition, the company received operational subsidies of RMB362 million, RMB496 million and RMB466 million in 2020, 2021 and 2022, respectively. We expect HNTU to continue to

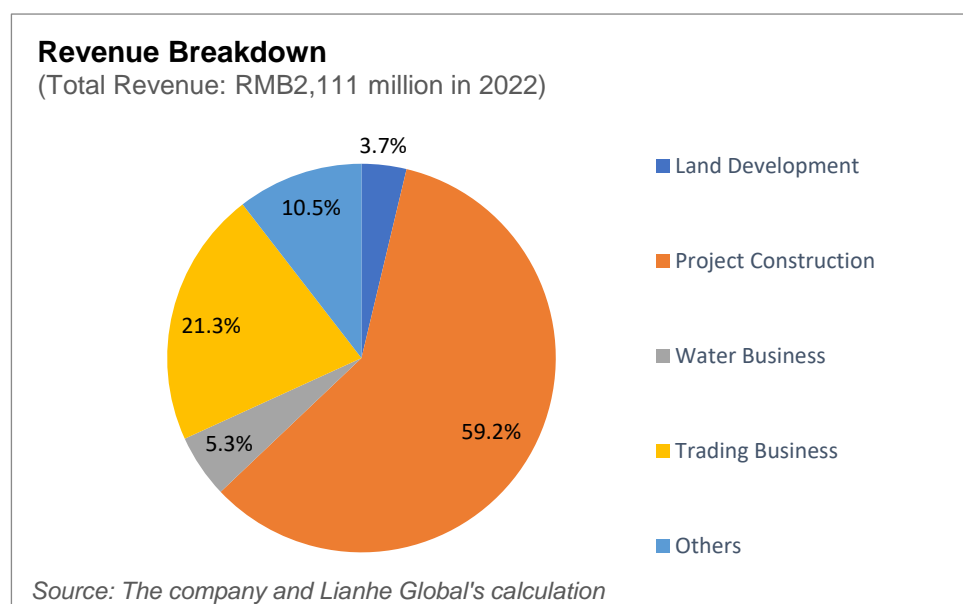
receive ongoing support from the local government in the coming years, considering its strategic importance in Daye.

## Business Profile

### A Key LIDC Responsible for Infrastructure Construction and Utilities Operation in Daye

HNTU is mainly responsible for infrastructure construction, land development, and utilities operation, etc. within the region. The company's strong franchise advantage enables it to undertake important infrastructure construction projects under the instruction of Daye government and other government agencies.

The company's total revenue reached RMB926 million, RMB1.1 billion, RMB1.2 billion and RMB2.1 billion in 2019, 2020, 2021 and 2022, respectively.



### Land Development Business

HNTU's land development business is managed by its subsidiary HJID. HNTU has substantial control over HJID. The Daye government and Daye Land Reserve Centre authorizes HJID to develop and consolidate land resources within the region. During the business operation, HJID undertakes all of the costs and fees from land development. Once the land is accepted after examination, HJID will receive the construction cost plus a 40% markup as the construction income. The operating revenue from land development business achieved RMB264 million, RMB341 million, RMB529 million and RMB78 million in 2019, 2020, 2021 and 2022, respectively.

### Project Construction Business

The company's project construction business is also handled by HJID. According to the contracts signed with the Daye government, HJID is responsible for implementing projects that planned and examined by the Daye government. After the project is completed and transferred to the city's construction management department, the Daye government will

pay HJID the actual cost and management fees (usually 15%) as the operating income. HNTU's project construction revenue was RMB470 million, RMB545 million, RMB377 million and RMB1.2 billion in 2019, 2020, 2021 and 2022, respectively. The gross profit margin of this segment remained stable at 12.1% in the past few years.

### Water Business

Daye Qingrun Water Co., Ltd. ("DQW"), the subsidiary of HJID, is the major water supplier of Daye. DQW enjoys a franchise and maintains stability in the water supply business within Daye. DQW supplies water to resident and commercial users, and the bill will be charged by the company directly. The income from the water business reached RMB97 million, RMB98 million, RMB105 million and RMB111 million in 2019, 2020, 2021 and 2022, respectively. The gross profit margin of this segment maintained an upward trend in the past few years, which was 14.3% in 2022, up from 8.3% in 2020.

### Other Businesses

Except for the businesses mentioned above, the company also runs public transportation business, trade business and some other businesses. As the businesses become more diversified, the proportion of income from other businesses over total income increased moderately in recent years.

## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>March 2023</b>
Total Asset	44,192	44,677	51,072	51,896
Equity	24,881	24,833	29,929	29,876
Debt	17,865	17,062	18,281	19,018
Debt / (Debt + Equity) (%)	41.8	40.7	37.9	38.9
LT Debts	10,729	9,512	9,529	10,153
LT Debt / (LT Debt + Equity) (%)	30.1	27.7	24.1	25.4

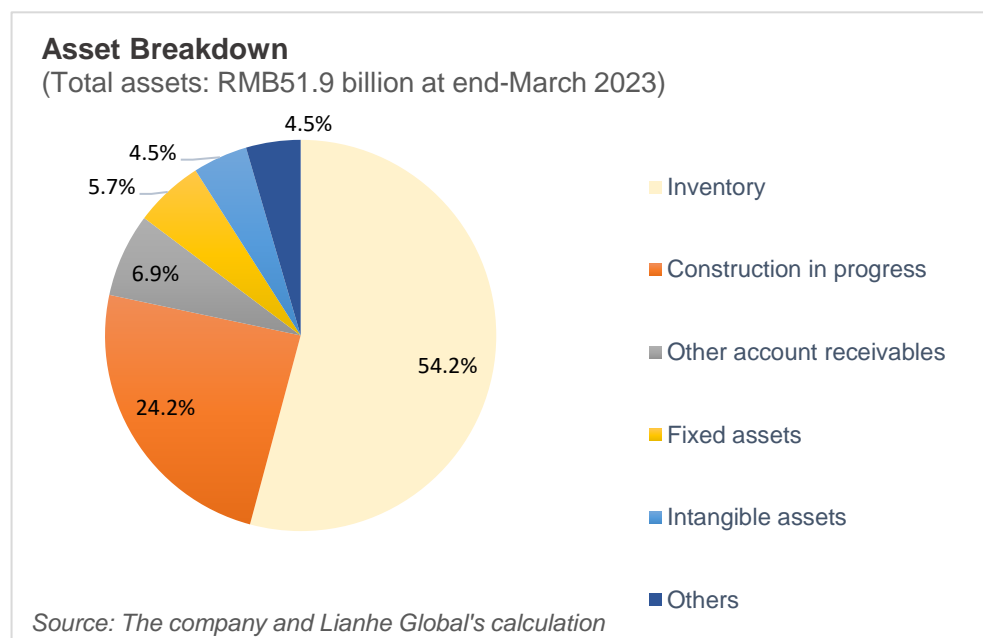
*Source: The company's financial reports and Lianhe Global's calculations*

HNTU's asset size grew to RMB51.9 billion at end-March 2023 from RMB44.2 billion at end-2020. This was mainly due to the surge in equity resulting from the local government's capital injection and asset injection. The company's total debt slightly increased to RMB19.0 billion at end-March 2023 from RMB17.9 billion at end-2020. Due to the larger increase in equity in 2022, the company's financial leverage, as measured by total debt/capitalization, decreased to 38.9% at end-March 2023 from 41.8% at end-2020.

HNTU's asset liquidity was moderately weak. The company had sizable amount of inventories, constructions in progress, and other account receivables, representing 85.3% of the company's total asset at end-March 2023. Most of these assets were related to the company's project construction business. The company's inventories mainly comprised land and construction costs, which usually need a relatively long time to monetize due to the long construction and cash collection period.

In addition, HNTU had other receivables of RMB3.7 billion at end-March 2023, accounting for 6.9% of its total assets, mainly due from other government agencies and LIDCs. In particular, the outstanding of RMB2.4 billion was due from Daye Jingchuang Asset

Management Co., Ltd. (“DJAM”), another LIDC fully owned by the Daye government. That initially was the account receivable of c. RMB4.2 billion due from Hubei Daye Hanlong Automobile Co., Ltd., which had stopped operation since 2020. The outstanding was transferred to DJAM in 2021 under the government’s instruction. DJAM should repay HNTU by 2025. However, the actual payment was behind schedule and a significant part of repayment was non-cash settlement.



### Debt Servicing Capability

The liquidity of HNTU was tight. At end-March 2023, the company had cash of RMB772.8 million (including restricted cash of RMB67.7 million). At the same time, the company had debt due within one year of RMB8.9 billion. Yet HNTU has access to various financing channels, including bank borrowings, offshore and onshore bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused credit lines of RMB2.3 billion at end-June 2023. We believe HNTU is highly rely on refinancing its short-term bank borrowing (c. RMB446 million at end-March 2023), obtaining additional financing sources and government support to maintain its liquidity.

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