

# Nanxun Communications Investment Group Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	9 November 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Nanxun Communications Investment Group Co., Ltd. (“NCIG” or “the company”) to ‘BBB’ from ‘BBB-’. The Outlook is Stable.

### Summary

The Issuer Rating upgrade reflects the increased strategic importance of NCIG in Nanxun District, Huzhou City (“Nanxun”), as demonstrated in its newly assigned role in industrial investment and service projects in the region, which involves the construction and operation of industrial parks. This business aligns with the industrial development goals of the People’s Government of Nanxun District (“Nanxun government”) and underscores NCIG’s significant role in fostering consistent industrial growth in the region. Besides, NCIG undertakes additional commissioned construction projects in the fields of healthcare and education in Nanxun.

We believe there is a high possibility that the Nanxun government would provide strong support to NCIG if needed, in light of its 100% ownership of NCIG, NCIG’s strategic importance as the important state-owned entity for transportation and water conservancy related infrastructure investment, construction and operation in the region, and the linkage between the Nanxun government and NCIG, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Nanxun government may face significant negative impact on its reputation, business and financing activities if NCIG encounters any operational and financial difficulties.

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

### Rating Rationale

**Strong linkage and Strategic alignment with the Nanxun government:** The Nanxun government, through the Finance Bureau of Nanxun District, Huzhou City (“Nanxun Finance Bureau”), holds 100% equity of NCIG. It is the ultimate controller of the company. The Nanxun government supervises the company, including control and supervision over the management, decisions on strategic development and investment and financing plans etc. In addition, the Nanxun government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financials on a periodic basis.

**Strategic Importance of NCIG to Nanxun:** NCIG, as the important state-owned infrastructure investment and construction entity in Nanxun, is mainly responsible for the investment, construction and subsequent operation of transportation, water conservancy, healthcare and education related infrastructure projects. The highways, railroads, rail transit and related integrated transportation hubs constructed by NCIG played an important role in promoting economic development in Nanxun and surrounding areas. The company completed major transportation infrastructure projects in the region to improve the integrated transportation network in Nanxun. Besides, The Nanxun government newly assigned the

### Key Figures of Nanxun and NCIG

(RMB billion)	2021	2022
<b>Nanxun</b>		
GDP	52.9	55.9
GDP growth rate (%)	8.5	3.5
Budgetary revenue	4.0	4.3
government fund	7.7	5.0
Transfer payment	2.4	3.2
Budgetary expenditure	6.6	6.9
<b>NCIG</b>		
	<b>2022</b>	<b>2023.6</b>
Total Asset	40.0	49.6
Equity	17.8	21.0
Revenue	2.0	0.8

Source: Statistics Bureau of Nanxun, Finance Bureau of Nanxun, NCIG and Lianhe Global’s calculations

### Analysts

Jack Li, CESGA  
 (852) 3462 9585  
[jack.li@lhratingsglobal.com](mailto:jack.li@lhratingsglobal.com)

Toni Ho, CFA, FRM  
 (852) 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

### Applicable Criteria

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

role of industrial investment and service projects to NCIG, which mainly involves the construction and operation of industrial parks. This business aligns with the industrial development goals of Nanxun and underscores NCIG's significant role in fostering consistent industrial growth in the region.

**Ongoing government Support:** NCIG has received support from the local government for its business operation, including capital injection, financial subsidies, allocation of land resources or state-owned assets and guidance in its daily management. Meanwhile, as the sole state-owned entity for transportation related infrastructure construction in Nanxun, NCIG has certain advantages in project and resource acquisition. NCIG also received financial subsidies from the local government to maintain its business operation, totalling to amount of RMB1.4 billion from 2020 to the first six months of 2023. We believe NCIG is likely to receive government support to support its daily business operation and transportation and water conservancy related infrastructure construction.

**Financial Positions of NCIG:** NCIG's total assets increased to RMB49.6 billion at end-June 2023 from RMB37.9 billion at end-2021, due to the expansion of its infrastructure construction related business. NCIG depended much on debt financing, and the total debts of the company jumped to RMB22.9 billion at end-June 2023 from RMB17.7 billion at end-2021. Having said that, its financial leverage, as measured by total liabilities/total assets, remained stable at 55%-58% from end-2021 to end-June 2023. The asset liquidity of NCIG was moderately weak due to the large proportion of project construction costs, operating right assets and receivables.

The liquidity of NCIG was sufficient. NCIG had a cash balance of approximately RMB3.9 billion and unused credit facilities of RMB5.1 billion at end-June 2023, compared with debt within one year of RMB6.3 billion. Besides, NCIG has financing channels including bank loans, bond issuance and non-traditional finance to support its debt repayment and business operation.

**Economy and Fiscal Condition of Nanxun:** Nanxun realized a GDP of RMB55.9 billion in 2022, representing a year-on-year growth of 3.5%, which was ranked 5<sup>th</sup> among 6 districts and counties under the jurisdiction of Huzhou. The GDP was mainly fuelled by the second and tertiary industries, which accounted for 58.1% and 36.3% of total GDP in 2022.

The aggregate fiscal revenue of the Nanxun government was mainly derived from the budgetary revenue and government fund income. The Nanxun government's budgetary revenue decreased to RMB4.0 billion in 2022 from RMB4.3 billion in 2021, due to the large-scale value-added tax credit refund policy to support the economy. The fiscal self-sufficiency rate of the Nanxun government was insufficient, and its budget deficit was widened to 74.3% in 2022 from 53.7% in 2021. Meanwhile, the government fund income dropped by 34.7% year-over-year to RMB5.0 billion in 2022, owing to weak property market. At end-2022, the total outstanding amount of government debt reached RMB12.4 billion, including RMB4.6 billion of general obligations and RMB7.8 billion of special debt. The debt ratio (i.e., total government debt divided by aggregate revenue) of the Nanxun government surged to 95.9% at end-2022 from 63.6% at end-2021, mainly due to the increase in special debt.

## Rating Sensitivities

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

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

### Company Profile

NCIG was established with an initial registered capital of RMB250 million and a paid-up capital of RMB203 million by Huzhou Nanxun District State-owned Assets Investment Holding Company Limited in 2017. In the same year, Nanxun Investment transferred 100.0% of NCIG's equity to Nanxun Finance Bureau, after which the latter in turn became the sole shareholder of NCIG. The registered capital of NCIG was RMB2 billion while the paid-in capital was RMB803 million as of end-June 2023, the outstanding capital will be paid up by 2040.

NCIG, as the important transport infrastructure construction and operation entity in Nanxun, has certain regional franchise advantages in the area. Its business covers the investment, construction and subsequent operation of transportation, water conservancy, healthcare and education related infrastructure project, engineering construction, commodity sales, security services, road maintenance and parking space rental etc.

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