

Huzhou Moganshan High-tech Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Huzhou Moganshan High-tech Group Co., Ltd. (“HMHG” or “the company”) to ‘BBB+’ from ‘BBB’; The Outlook is Stable.

Summary

The Issuer Credit Rating upgrade reflects the company’s increasing strategic importance in Deqing County, Huzhou City (“Deqing”) and Mogan Mountain of Huzhou Hi-tech Industry Development Zone (“MHZ”), as the company is undertaking more significant infrastructure projects, land development projects, and industrial park development projects under the guidance of the People’s Government of Deqing County, Huzhou City (“Deqing government”) with the expansion of its business coverage area in MHZ. With the integration of local investment and development companies (“LIDCs”) within MHZ, the company’s responsibility for urban development and land consolidation becomes more prominent. It is expected that HMHG will undertake the majority of major municipal and industrial upgrade projects within the area.

We believe there is a high possibility that the Deqing government would provide very strong support to HMHG if needed, in light of the Deqing government’s full ownership of HMHG, HMHG’s strategic importance as the key LIDC that is responsible for infrastructure construction and land development in Deqing, especially in MHZ, and the linkage between the Deqing government and HMHG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Deqing government may face significant negative impact on its reputation and financing activities if HMHG encounters any operational and financial difficulties.

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

Rating Rationale

Deqing Government’s Full Ownership and Supervision: The Deqing government indirectly holds the full ownership of HMHG through the Mogan Mountain of Huzhou Hi-tech Industry Development Zone Management Committee’s (“MHZ MC”) wholly-owned subsidiary, namely Huzhou Moganshan State-owned Capital Holding Group Co., Ltd. The Deqing government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions, via the MHZ MC. In addition, the Deqing government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

High Strategic Importance and Strategic Alignment: HMHG is still an important LIDC in Deqing, especially in MHZ, that is primarily responsible for the infrastructure construction, land development and industrial park construction and operation in MHZ with strong regional advantages. It is the core platform designated by the MHZ MC to implement its infrastructure construction and state-owned asset management plans, and it has undertaken and

Key Figures of Deqing and HMHG (RMB billion)

Deqing	2022	2023
GDP	65.8	68.1
GDP growth rate (%)	3.8	5.3
Budgetary revenue	8.0	8.5
Government fund	10.7	7.9
Transfer payment	2.0	2.7
Budgetary expenditure	10.2	10.8
HMHG	2022	2023.9
Assets	90.5	97.8
Equity	36.1	35.0
Revenue	2.3	1.8

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

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Applicable Criteria

[China Local Investment and Development Companies Criteria \(5 December 2022\)](#)

completed a number of strategically important projects in the region. As the key entity for performing government-related functions in MHZ, HMHG plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: HMHG received operational and financial support from the government. HMHG received a total subsidy of RMB1.9 billion from 2020 to the first nine months of 2023, mainly including daily operating subsidies. The Deqing government, through the MHZ MC, continued to inject cash, equity, land improvement projects and other kinds of assets into HMHG to expand its asset size and diversify its business. MHZ MC will repurchase some infrastructure and administrative area construction projects and provide policy supports to HMHG to ensure its business operation. Given the regional advantage in infrastructure construction and land development in MHZ, HMHG has advantages to obtain land resources and major projects. We believe HMHG is likely to receive timely government support in the form of operational and financial subsidies to support its daily business operation.

HMHG's Financial and Liquidity Position: HMHG's total asset size increased to RMB97.8 billion at end-September 2023 from RMB90.5 billion at end-2022, with a growth rate of 8.0%. The increase of HMHG's total assets was largely due to its inventories, which has steadily increased in tandem with the company's infrastructure and land development projects. Though HMHG had considerable current assets (76.0% of total assets at end-September 2023), its assets were relatively illiquid, primarily due to the significant proportion of costs associated with construction projects and the receivables.

HMHG's financial leverage (total liabilities to assets) reached 64.2% at end-September 2023, up from 60.1% at end-2022. During this period, the company's total adjusted debt increased to RMB57.3 billion, marking an increase from RMB50.1 billion at end-2022. The short-term debt accounted for 23.5% of the total debt, while long-term debt comprised the remaining 76.5% at end-September 2023. Consequently, HMHG's debt to capitalization ratio experienced a slight increase to 62.1% at end-September 2023, compared to 58.1% at end-2022. The long-term debt to capitalization ratio also increased from 49.1% to 55.6% over the same period.

Liquidity was sufficient to support HMHG's debt repayments. At end-September 2023, HMHG had unrestricted cash balance and unused credit facilities of RMB7.5 billion and RMB8.9 billion, respectively, compared with its debt to be due within one year of RMB13.5 billion. In addition, HMHG has access to various channels of financing, including bank loans, onshore and offshore bonds, and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of Deqing: Deqing realized a GDP amount of RMB68.1 billion in 2023, with its economic growth rate elevated to 5.3% in 2023 from 3.8% in 2022. Deqing's GDP scale was ranked third among all districts and counties of Huzhou in 2023. The aggregate fiscal revenue of the Deqing government was mainly derived from the budgetary revenue and government-managed fund income. The Deqing government's budgetary revenue increased to RMB8.5 billion in 2023 from RMB8.0 billion in 2022, due to the significant increase in non-tax revenue of specialized income and revenue from reimbursable use of state-owned resources. The Deqing government's budget deficit was narrowed to 26.5% from 27.2% over the same period. However, The Deqing's government fund income, which was mainly generated by land sales, further dropped to RMB7.9 billion in 2023 from RMB10.7 billion in 2022, owing to the decreased of land use right transfer income amid challenging property market conditions. Besides, its government debt grew

significantly in 2023, lifting the government debt ratio, as measured by total government debt/aggregate revenue, to 99.7% from 70.9% over the same period.

MHZ was established in 1992 and was upgraded to a national high-tech industrial development zone in September 2015 with the approval of the State Council, which is the only county-level national high-tech zone in Zhejiang province. Its GDP and fiscal revenue contribution to Deqing was high in past years.

Rating Sensitivities

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

We would consider upgrading HMMG's rating if there is an upgrade in our internal credit assessment on the Deqing government.

Company Profile

HMMG was established in December 2017 with an initial registered capital of RMB10 billion. At end-September 2023, HMMG's registered and paid-in capital were both RMB10 billion. HMMG is wholly owned by MHZ MC's wholly-owned subsidiary, namely Huzhou Moganshan State-owned Capital Holding Group Co., Ltd.

HMMG, as an important LIDC in Deqing and the sole LIDC in MHZ, is mainly responsible for land development and infrastructure construction, as well as the industrial park development and operation within the region. As the core platform designated by the MHZ MC to implement its infrastructure construction and state-owned asset management plans, HMMG plays an important role in promoting economic and social development within the region.

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