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S&P Global

China Ratings

Credit Rating Report:

West Lake Construction Investment Group

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

Rating Date: September 3, 2024

Date of Expiry: September 2, 2025

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* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
West Lake Construction Investment Group	Issuer Credit Rating	AAA_{spc}	September 3, 2024	Stable

Industry Classification: Transportation Infrastructure

Company Overview: West Lake Construction Investment Group ("West Lake Construction Investment" or "company") is a state-owned enterprise under the jurisdiction of Xihu District, Hangzhou. The actual controller is the People's Government of Xihu District, with a shareholding ratio of 90.641%. The company primarily undertakes infrastructure construction, land consolidation and development, and state-owned asset management in Xihu District other than Hangzhou Zhijiang National Resort. As of the end of June 2024, it held total assets of 100.5 billion RMB, with net assets reaching 31.9 billion RMB (including minority interests). From January to June 2024, the company achieved revenue of 620 million RMB, with net profits of -2.81 million RMB.

Economy and Industry Trends: We expect China's GDP growth to reach 4.8% in 2024 and to maintain around 4.5% over the next three years. The government would set policies with an annual growth target of 5%. China's imports and exports are expected to continue recovering this year and next, and outbound tourism expenditures have shown a rapid growth trend. Domestic commodity prices and corporate profit margins are declining due to the combined effect of sluggish consumption and robust manufacturing investment. However, consumer deflation is unlikely to occur. In our view, China's economic growth faces both internal and external risks. Internal risks mainly stem from the continued weakness in the real estate market, while external risks include the accelerated adjustment of supply chains and increased trade/investment barriers such as tariffs with major trading partners. Although debt rollover for LGFVs is not expected to be difficult, the challenges faced by local governments and LGFVs remain in servicing interest payments and resolving private placement debt. The second half of the year might see deeper efforts in resolving local government debts. As the downward trend in land transfer revenues shows no sign of improvement, piling more pressures on local government finance, LGFVs should continue to face significant liquidity pressures.

Credit Highlights:

Business Risk Profile: The company's business risk profile is "satisfactory". Hangzhou and Xihu District, where the company is located, have good development potential and their economic and fiscal strength is at the leading level in the country, providing a favorable environment for the company. As a key LGFV in Xihu District, the role of the company is well-defined, and its business activities are highly focused on public service, covering all areas of Xihu District except for the Hangzhou Zhijiang National Resort, with strong exclusivity. The company possesses significant assets, yet its revenue is moderate. Slow settlement and repayment for construction projects challenge the company's turnover efficiency.

Financial Risk Profile: The company's financial risk profile is "highly leveraged", which reflects its high leverage ratios and low EBITDA interest coverage. The company bears significant construction responsibilities, with substantial funds tied up in ongoing projects. Frequent mutual guarantees and fund lending among other SOEs in Xihu District have led to a high level of debt. We expect the continued operation of the company's business will keep capital expenditures at a high level, making it difficult for the company's leverage and EBITDA interest coverage ratios to improve significantly in the short term. However, benefiting from a favorable local refinancing environment, the company maintains smooth financing channels and strong refinancing capabilities.

External Influence: We expect the company to receive "high" support from Hangzhou Municipal Government. The Xihu District Government of Hangzhou is the company's actual controller, holding a 90.641% stake. Xihu District is one of the central districts of Hangzhou and is also the location of Zhejiang Provincial Party Committee and Provincial Government, as well as a hub for provincial capital administrative units. The district boasts leading economic and fiscal strength compared to other districts and counties nationwide and benefits from a positive refinancing environment. The company primarily undertakes infrastructure construction, land consolidation and development, and state-owned asset management in Xihu District excluding Hangzhou Zhijiang National Resort. The business has a strong public service orientation, operates across a broad range of coverage area, and has clear functional roles with strong exclusivity. With a large asset base, the company's negative public sentiment could severely affect the local financing environment.

Rating Snapshot:

Issuer Credit Rating:	**AAA_{spc}/Stable**
Business Risk Profile:	**3/Satisfactory**
— Industry Risk:	2/Low
— Competitive Position:	3/Satisfactory
Financial Risk Profile:	**6/Highly leveraged**
Anchor:	**bbb-**
Adjustments	
— Diversification:	Neutral (no impact)
— Capital Structure:	Neutral (no impact)
— Financial Policy:	Neutral (no impact)
— Liquidity:	Adequate (no impact)
— Management & Governance:	Neutral (no impact)
— Holistic Adjustment:	Neutral (no impact)
Stand-alone Credit Profile:	**bbb_{spc}-**
External Influence:	**+9**

Key Metrics:

	2023A	2024E	2025F
Adjusted Debt/EBITDA (x)	195.6	220-240	250-270
EBITDA interest coverage (x)	0.2	0-0.5	0-0.5
EBITDA margin (%)	32.6	30-40	30-40

Note: Data adjusted by S&P Global (China) Ratings. A- actual, E-estimate, F-forecast.

Peer Comparison: (2022-2023 average, RMB, million)

	West Lake Construction Investment	Shangcheng Capital	Linping Urban Construction	Wujiang Urban Investment
Revenue	991	10,459	6,268	3,449
EBITDA	293	2,857	1,526	792
Adjusted Debt/EBITDA (x)	253.9	22.4	47.7	67.7
EBITDA interest coverage (x)	0.1	1.3	0.7	0.5

Note: Above data adjusted by S&P Global (China) Ratings.

Source: Company data, public information, adjusted by S&P Global (China) Ratings.

Declaration

No association that may affect the independence, objectivity and unbiasedness of the rating process exists between S&P Global (China) Ratings or its analysts and the rated entity, other than the engagement as a result of this credit rating project.

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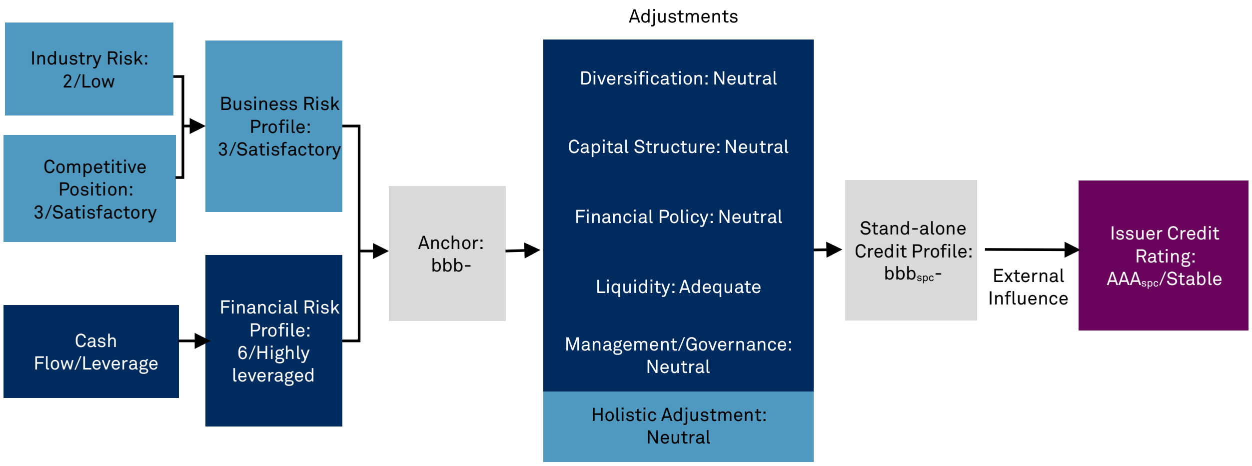
Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/Credit Watch
West Lake Construction Investment Group	Issuer Credit Rating	AAA_{spc}	September 3, 2024	Stable



Credit Highlights

Strengths	Weaknesses
Where the company is located ranks among the top in the country in terms of economic and fiscal strength, with a moderate debt burden, which provides a favorable environment and strong support for the company's business development.	Due to large capital expenditures on construction projects and a slower pace of cash collection, the company bears a heavy debt burden with very high leverage ratios.
The company plays a crucial role in the infrastructure construction of Xihu District. Its businesses are strongly public-service oriented, with a broad coverage area, clear positioning, and strong exclusivity.	
The company has smooth financing channels and strong refinancing capabilities.	

Outlook

The stable outlook on West Lake Construction Investment reflects our view that Hangzhou Municipal Government would provide strong support to the company given its significant role in the infrastructure construction of Xihu District, Hangzhou. We expect the company to continue enjoying a favorable external environment and refinancing conditions, benefiting from the good development potential and strong economic and fiscal strength of the region. The company would still undertake the functions of infrastructure construction, land consolidation and development, as well as state-owned asset management in Xihu District, excluding Zhijiang National Resort. It should continue to receive “high” support from Hangzhou Municipal Government. However, ongoing project investments may lead to its leverage ratios remaining at high level.

Upside scenario: Not applicable.

Downside scenario: We might consider lowering the issuer credit rating of the company if the support from Hangzhou Municipal Government to the company decreases, which could occur if: 1) its business exclusivity is noticeably weakened, which might be indicated by the emergence of strong competitors within Xihu District, undermining the company’s functional positioning; 2) changes in the company’s equity structure result in a significantly reduced affiliation between the company and the government.

Assumptions and Forecasts

Assumptions

- Revenue is expected to decrease by 3%-7% YoY in 2024, mainly due to the decline in leasing income; revenue is expected to increase by 4%-8% YoY in 2025 with stabilized operations.
- In 2024 and 2025, annual capital expenditures are estimated to be 11billion-13 billion RMB, mostly for infrastructure construction and land consolidation.
- In 2024 and 2025, profitability should remain stable, and EBITDA margin is expected to be around 30%-40%.

Forecasts

Table 1

Key Metrics

	2023A	2024E	2025F
Adjusted Debt/EBITDA (x)	195.6	220-240	250-270
EBITDA interest coverage (x)	0.2	0-0.5	0-0.5
EBITDA margin (%)	32.6	30-40	30-40

Note: Adjusted by S&P Global (China) Ratings. A—actual. E—estimated. F—forecast.

Adjusted Financials and Ratios

Table 2

Adjusted Financials and Ratios (RMB, million)

	2021	2022	2023	2024.1-6
Revenue	601	810	1,173	621
EBITDA	153	204	383	--
Interest expense	2,309	1,773	2,298	--
Adjusted debt	51,198	63,674	74,865	--
Adjusted debt (excluding guarantees)	39,477	46,184	56,509	--
EBITDA margin (%)	25.5	25.2	32.6	--
Adjusted Debt/EBITDA (x)	334.3	312.2	195.6	--
EBITDA interest coverage (x)	0.1	0.1	0.2	--

Note: 1. Key adjustments to financial data are present in "Adjustments to the company's key financial data".
2. "--" means that data are unavailable.

Related Methodologies, Models & Research

Methodology Applied:

- S&P Global (China) Ratings - Corporate Methodology, March 14, 2024
- S&P Global (China) Ratings Supplemental Methodology - Transportation Infrastructure Industry, December 22, 2023

- S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking, May 21, 2019.

Related Research: None.

Economic and Industry Trends

We expect China's GDP growth to reach 4.8% in 2024 and to maintain around 4.5% over the next three years. The government would set policies with an annual growth target of 5%. China's imports and exports are expected to continue recovering this year and next, and outbound tourism expenditures have shown a rapid growth trend. Domestic commodity prices and corporate profit margins are declining due to the combined effect of sluggish consumption and robust manufacturing investment. However, consumer deflation is unlikely to occur. In our view, China's economic growth faces both internal and external risks. Internal risks mainly stem from the continued weakness in the real estate market, while external risks include the accelerated adjustment of supply chains and increased trade/investment barriers such as tariffs with major trading partners.

Although debt rollover for LGFVs is not expected to be difficult, the challenges faced by local governments and LGFVs remain in servicing interest payments and resolving private placement debt. The second half of the year might see deeper efforts in resolving local government debts. As the downward trend in land transfer revenues shows no sign of improvement, piling more pressures on local government finance, LGFVs should continue to face significant liquidity pressures. We expect that in the second half of 2024, financing policies related to LGFVs should remain relatively tight, some LGFVs may face greater pressure to refinance given continued net outflow of bond financing. Underpinned by the central government's debt-relieving measures, the credit risk of public bonds issued by LGFVs should remain under control in the second half of 2024. However, incidents such as private placement debt defaults and note payment delays are likely to occur frequently.

The resolution of local government debt would face more challenges, and financing policies related to LGFVs should remain relatively tight.

Hangzhou possesses strong economic power and a high level of affluence among its residents. Being the capital of Zhejiang province, it is one of the sub-provincial cities in China, and one of the core cities in the Yangtze River Delta urban agglomeration. In 2023, Hangzhou achieved a regional GDP of 2.06 trillion RMB, a YoY growth of 5.6%. The city ranked third among provincial capitals, fourth among sub-provincial cities, and eighth among major cities nationwide in terms of economic volume. Hangzhou's per capita GDP was 161,129 RMB, remarkably higher than the national per capita GDP of 89,358 RMB. Hangzhou has a solid industrial foundation, with the proportions of primary, secondary, and tertiary sectors being 1.7:28.3:70.0 in 2023. The 14th Five-Year Plan of the city focuses on the development of the “5+3” key industries, which includes five pillar industries, namely culture, tourism and leisure, financial services, life and healthcare, and advanced equipment manufacturing, as well as three leading industries, namely artificial intelligence, cloud computing and big data, and information and software. Private sector is thriving in Hangzhou, with the added value of the private economy accounting for 61.2% of the GDP in 2023, and 42 private enterprises listed among the top 500 private enterprises in China. Based on the above, we anticipate that Hangzhou's economic fundamentals will remain stable, with total GDP and per capita GDP staying at a relatively high level in China.

Hangzhou boasts extremely strong fiscal capabilities, with a high contribution from tax revenues and a high degree of fiscal self-sufficiency, making its debt pressure manageable. In 2023, the general public budget revenue of the city reached 261.7 billion RMB, ranking fourth among all cities in China, up by 6.8% YoY. Tax revenue accounted for nearly 90% of the general public budget revenue. During the same period, its general public budget expenditure was 263.6 billion RMB, placing it among the leaders nationally in terms of fiscal balance. Hangzhou's debt ratio is average in China, as the local government debt balance stood at 386.7 billion RMB by the end of 2023.The sound economic fundamentals provide a robust tax base, which is conducive to maintaining extremely strong fiscal strength and supporting its debt repayment. In addition, as the capital of Zhejiang province, Hangzhou has a strong siphon effect on surrounding cities, sustaining a net inflow of population over the years. By the end of 2023, the permanent resident population reached 12.52 million, which enhances the city's resilience during downturns in the real estate market. As of August 25, 2024, the total value of land transactions in Hangzhou amounted to 86.5 billion RMB, ranking second among the top 10 cities by GDP in China, just behind Beijing.

Xihu District shows great development potential, and its economic and fiscal strength ranks among the top of districts and counties nationwide. As one of the core areas of Hangzhou, Xihu District hosts more than 80% of provincial-level government offices, including Zhejiang Provincial Party Committee and Provincial Government, indicating a favorable location advantage. The district is rich in tourism and educational resources and focuses on cultural creativity, leisure tourism, and high-tech industries as its leading sectors. It is developing a spatial layout known as "Three Cities, One Valley, and Six Towns", emphasizing the development of the digital economy, scientific innovation, and cultural creativity, with a thriving service sector. In 2023, the regional GDP was 208.7 billion RMB in the district, marking a YoY growth of 5.1%, which is leading among districts and counties nationwide. The proportions of primary, secondary, and tertiary sectors were 0.2:6.9:92.9, with the tertiary sector (i.e., services) achieving an added value of 193.9 billion RMB, increasing by 6.1% YoY. The general public budget revenue contributed by the tertiary sector in 2023 is 19.7 billion RMB, reaching a contribution rate of 84.3%. Notably, the digital economy in the tertiary industry performed exceptionally well, with an added value of 67 billion RMB in 2023, accounting for 32.1% of the district's GDP. Regional GDP per capita stood at around 178,600 RMB in 2023, surpassing the average level of Hangzhou. The general public budget revenue of Xihu District was 23.4 billion RMB in 2023, with expenditures reaching 16.9 billion RMB, placing its fiscal balance at a leading level among districts and counties nationwide.

Rating Anchor

Company Description

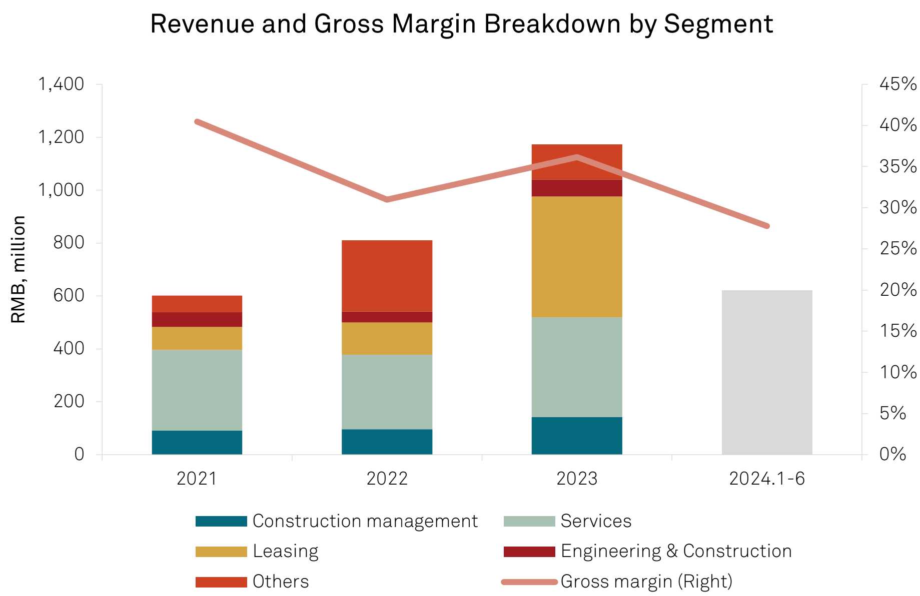
West Lake Construction Investment Group ("West Lake Construction Investment" or "company") was established in 2004. As of today, the registered capital of the company is 2 billion RMB. The controlling shareholder is Hangzhou Xihu Investment Group Co., Ltd., and the actual controller is the People's Government of Xihu Distric, with a shareholding ratio of 90.641%. The company has established a sound corporate governance structure, including a Board of Directors, a Board of Supervisors, and an operational management team, with comprehensive internal control systems and organizational structures.

The company is a comprehensive construction entity in Xihu District, responsible for the operation of state-owned assets and resources, as well as investment and financing activities. It primarily undertakes infrastructure construction, land consolidation and development, and state-owned asset management in Xihu District other than Hangzhou Zhijiang National Resort.

As of the end of 2023, the company's total assets amounted to 94.3 billion RMB, with net assets reaching 29.2 billion RMB, and annual revenue totaling 1.17 billion RMB. As of the end of June 2024, it held total assets of 100.5 billion RMB, with net assets reaching 31.9 billion RMB. From January to June 2024, the company achieved revenue of 620 million RMB.

The company's main business activities include construction management, engineering construction, services, leasing and others. Among these, construction management is a traditional LGFV business that confirms income through contracted construction management fees, which account for a lower proportion. In contrast, the income from services and leasing accounts for a higher proportion, providing a good supplement to cash flow.

Chart 1



Note: Revenue breakdown for January to June 2024 is not available.
Source: Data provided by the company, collected by S&P Global(China)Ratings.

Business Risk Profile

We view the company's business risk profile is "satisfactory". Hangzhou and Xihu District, where the company is located, have good development potential and their economic and fiscal strength is at the leading level in the country, providing a favorable environment for the company. As a key LGFV in Xihu District, the role of the company is well-defined, and its business activities are highly focused on public service, covering all areas of Xihu District other than the Hangzhou Zhijiang National Resort, with strong exclusivity. The company possesses significant assets, yet its revenue is moderate. Slow settlement and repayment for construction projects challenge the company's turnover efficiency.

Both Hangzhou and Xihu District have good development potential, with their economic and fiscal strength leading in China.

Hangzhou and Xihu District have good development potential, with their economic and fiscal strength leading in prefecture-level cities and districts across the country, providing a favorable external environment for the company's business operations. Hangzhou is the capital of Zhejiang province and a sub-provincial city. As one of the core cities in the Yangtze River Delta region, it has a solid industrial foundation and a thriving private economy. Its GDP ranks eighth among all cities in China, with its per capita GDP significantly above the national average, leading to a robust tax base. Meanwhile, the city's general public budget balance is also leading in the country. The future direction of industrial development in Hangzhou focuses on emerging high-end industries such as artificial intelligence and big data, which have great potential. Xihu District, as one of the central areas of Hangzhou, possesses excellent geographical advantages and abundant tourism and educational resources. Its service industry is well-developed, and its economic and fiscal strength stands at a leading level among districts and counties nationwide. In 2023, the district's GDP reached 208.7 billion RMB, with general public budget revenue amounting to 23.4 billion RMB.

The company is an important LGFV in Xihu District with a clearly defined role.

The function of West Lake Construction Investment is well-defined, with strong public-service orientation, and it exhibits prominent exclusivity in its operation areas. The company is an entity responsible for implementing strategic plans and managing state-owned assets under the jurisdiction of Xihu District. It undertakes infrastructure construction, resettlement housing construction, land consolidation and development, and asset operations. The company's functional role is clearly defined, and its operations are strongly oriented towards public service. Some projects could receive subsidies or funds from governments. Xihu District has been implementing “1+6+N” SOE reform since July 2023. “1” refers to the Xihu District government, while “6” represents six major local companies. Each of these companies has a clearly defined scope of business, as shown in Table 3. Among them, West Lake Construction Investment is primarily responsible for areas within Xihu District, excluding the Hangzhou Zhijiang National Resort, holding a prominent exclusivity.

Table 3

Overview of 6 Key Companies in Xihu District

Company Name	Controlling Shareholder	Actual Controller	Total Assets-end of June 2024 (RMB, 100 million)	Business Scope
West Lake Construction Investment	Xihu Investment	Xihu District Government	1,005	Infrastructure, land development, and resettlement housing in Xihu District excluding Zhijiang Area
Xihu Investment	Xihu District Finance Bureau	Xihu District Government	1,452	Retained land development and management in Xihu District
Yunchuang Group	West Lake Construction Investment	Xihu District Government	195	Infrastructure, land development, and resettlement housing in Zijin Port Science and Technology City; Industrial land development in Xihu District; Operations of industrial parks in Yungu and Yunqi Areas
Zhijiang Construction Investment	Xihu District SASAC	Xihu District Government	1,060	Infrastructure, land development and resettlement housing in Zhijiang Area

West Lake Culture & Tourism	Xihu Investment	Xihu District Government	252	Cultural and tourism, including Xixi Wetland, Xixi Hotel, Lingshan Scenic Area, Xihu District Cultural and Sports Center, Xihu District Stadium, and Longwu Tea Town.
West Lake Science & Technology VC	Xihu Investment	Xihu District Government	--	Fund investment

Note: Hangzhou Xihu Investment Group Co., Ltd., referred to as "Xihu Investment"; Hangzhou West Lake Yunchuang Group Co., Ltd., referred to as "Yunchuang Group"; Hangzhou Zhijiang Urban Construction Investment Group Co., Ltd., referred to as "Zhijiang Construction Investment"; Hangzhou West Lake Culture & Tourism Investment Group Co., Ltd., referred to as "West Lake Culture & Tourism"; "Hangzhou West Lake Science & Technology Equity Investment Co., Ltd", referred to as "West Lake Science & Technology VC". The asset scale of West Lake Science & Technology VC cannot be confirmed based on publicly available information.

Source: Company data, Wind, S&P Global (China) Ratings.

We believe that the company's business coverage area is extensive, with a large total asset base and good sustainability. The company's business activities are primarily concentrated in the northern area of Xihu District, covering the downtown area. As of the end of June 2024, the company's total assets amounted to 100.5 billion RMB, ranking it among the top LGFVs in Hangzhou and standing above average compared to other LGFVs nationwide. By the end of 2023, the company still had many ongoing projects for infrastructure construction, land development and consolidation and resettlement housing, as shown in Table 4, with remaining investment needs amounting to 13.51 billion RMB. Additionally, the company has a substantial project pipeline, which is expected to support business operations.

Table 4

Investment in Major Ongoing Projects (end of 2023, RMB,100 million)

Project Type	Total Investment	Investment Made	Remaining Investment
Infrastructure construction	363.0	289.2	73.8
Land development	50.6	4.4	46.2
Resettlement housing	66.4	51.3	15.1
Total	480.0	344.9	135.1

Source: data provided by the company, S&P Global (China) Ratings.

The company's LGFV business generates average revenue, with significant capital occupation, which poses challenges to operational efficiency. The company undertakes infrastructure construction, land development, and resettlement housing projects through the contracted construction model. Revenue is recognized as project construction management fees based on cost, with varying rates that do not exceed 6%. From 2021 to 2023, the company's annual recognized management fees for contracted construction were relatively small, approximately 100 million RMB, accounting for 10%-15% of total revenue. At the same time, the company must self-finance the construction funds in advance. After the completion of the projects, the government arranges for settlement and repayment according to the fiscal fund schedule. The overall progress of settlement and repayment for undertaken projects has been slow, leading to a significant amount of tied-up funds and hindering the company's turnover efficiency.

The company's operating businesses should be able to supplement its cash flow. In addition to traditional LGFV operations such as infrastructure construction, land consolidation, and resettlement housing, the company also engages in businesses including industrial park leasing, environmental services, engineering construction, and parking. These combined contribute approximately 80% of revenue. The operational areas of these businesses are concentrated within the Xihu District. Although the overall business scale is not large, they form a stable source of cash inflow.

Financial Risk Profile

Leverage is very high, and EBITDA shows weak coverage of interest expenses. But refinancing is strong with smooth channels.

We view the company's financial risk profile as "highly leveraged". The company has a very high leverage level, and its EBITDA shows weak coverage of interest expenses, though it has strong refinancing capabilities. With continued operations, the company's capital expenditure needs should remain high, and slow cash recovery is unlikely to improve. As a result, the financial risk profile is expected to remain "highly leveraged" over the next 1-2 years. However, the company is highly recognized in the capital market and maintains good relationships with financial institutions, which keeps its financing costs manageable. There should be no significant difficulties in rolling over debt. Despite the company provides a large amount of external guarantees, the risk should be under control.

Revenue would decrease slightly in 2024, affected by a decline in leasing income. In 2025, revenue would see a modest increase, while EBITDA margin is expected to remain stable. The settlement ratio of the construction management business in 2024-2025 could be comparable to historical levels, with revenue possibly growing along with rising capital expenditures, reaching 200-300 million RMB. In 2023, leasing revenue saw a significant increase, mainly due to the recognition of previously advanced rents subsidized under investment incentives by its subsidiary, Yunchuang Group. Leasing revenue is likely to decline in 2024 excluding this factor, leading to a reduction in total revenue by 3%-7% YoY. In 2025, revenue is expected to rise steadily, with a YoY growth of 4%-8%. The company's profitability should remain stable, with an EBITDA margin staying between 30%-40% in 2024 and 2025.

The company experiences slow progress in project repayments, and funding gaps between operating and investment activities rely on external financing to balance, leading to a very high financial leverage. As a major entity for construction projects in Xihu District, the company has historically undertaken large-scale infrastructure construction, land development, and resettlement housing projects, leading to significant capital expenditures. From 2020 to 2023, annual capital expenditures were 5 billion to 10 billion RMB, and the number may increase to 11 billion to 13 billion RMB in 2024-2025, mainly due to large amounts of planned investments by its subsidiary, Yunchuang Group. At the same time, the local government's settlement progress for the company's contracted projects has been slow, resulting in poor repayment conditions, and great uncertainty regarding project repayments over the next 1-2 years. Overall, cash inflows generated by the company's businesses and government financial support are insufficient to cover the capital expenditures, necessitating the borrowing of debt to fill the gaps. This has led to high leverage and a heavy interest burden. Furthermore, frequent inter-company lending activities with other SOEs in Xihu District also tie up a large amount of funds. However, considering the favorable refinancing environment in the region, the overall risk remains manageable.

With smooth and diverse financing channels and good relationships with banks, the company has strong refinancing capabilities. Both Hangzhou and the Xihu District boast superior economic and fiscal strength, contributing to a favorable regional financing environment. The company's financing approaches are diversified, including bank loans, bond issuance, private placement debt, and loans from other SOEs. It also maintains stable relationships with financial institutions, especially with local city commercial banks. As of the end of June 2024, the company had unused credit lines exceeding 10 billion RMB, as well as high recognition in the capital market. The financing environment is conducive to reducing the company's cost of debt financing and extending the maturity of financings.

In addition, the company has a high balance of outstanding guarantees, primarily to Zhijiang Construction Investment. Considering the favorable financing environment in Xihu District, contingent risks and concentration risks should be manageable. As of the end of June 2024, the outstanding guarantees amounted to 15.5 billion RMB, representing 49% of net assets. Over 90% was guaranteed to Zhijiang Construction Investment.

Table 5

<table>
<tr><th colspan="6">Adjusted Key Financial Data (RMB, million)</th></tr>
<tr><th></th><th>2021A</th><th>2022A</th><th>2023A</th><th>2024E</th><th>2025F</th></tr>
<tr><td>Revenue</td><td>601</td><td>810</td><td>1,173</td><td colspan="2" rowspan="6">Revenue is estimated to drop by 3%-7% YoY in 2024, while up by 4%-8% YoY in 2025.
Annual capital expenditure is expected to be 11 billion - 13 billion RMB in 2024-2025.</td></tr>
<tr><td>EBITDA</td><td>153</td><td>204</td><td>383</td></tr>
<tr><td>Capital expenditure</td><td>9,766</td><td>5,515</td><td>8,483</td></tr>
<tr><td>Interest expense</td><td>2,309</td><td>1,773</td><td>2,298</td></tr>
<tr><td>Adjusted debt</td><td>51,198</td><td>63,674</td><td>74,865</td></tr>
<tr><td>Adjusted debt (excluding guarantees)</td><td>39,477</td><td>46,184</td><td>56,509</td></tr>
<tr><th colspan="6">Adjusted Core Financial Metrics</th></tr>
<tr><td>Adjusted Debt/EBITDA (x)</td><td>334.3</td><td>312.2</td><td>195.6</td><td>220-240</td><td>250-270</td></tr>
<tr><td>EBITDA interest coverage (x)</td><td>0.1</td><td>0.1</td><td>0.2</td><td>0-0.5</td><td>0-0.5</td></tr>
<tr><td>EBITDA margin (%)</td><td>25.5</td><td>25.2</td><td>32.6</td><td>30-40</td><td>30-40</td></tr>
</table>

Note: adjusted by S&P Global (China) Ratings. A-actual, E-estimated, F-forecast.

Source: Company audit reports, information provided by the company, S&P Global (China) Ratings.

Table 6

Adjusted to Key Financial Data – end of 2023 (RMB, million)

	Total debt	Total equity	EBITDA	EBITDA	Interest expense
Reported Value	56,264	29,155	370	370	164
S&P Global (China) Ratings' adjustments					
Surplus cash	-2,080	-	-	-	-
Perpetual bonds	2,325	-2,325	-	-	-
External guarantees & litigations	18,356	-	-	-	-
Interest and dividend income	-	-	-	5	-
Current tax	-	-	-	-5	-
Interest expense	-	-	-	-164	-
Capitalized interest	-	-	-	-2,134	2,134
Other adjustments	-	-	13	13	-
Adjustment Value	18,601	-2,325	13	-2,285	2,134
	Adjusted debt	Equity	EBITDA	FFO	Interest expense
Adjusted Value	74,865	26,830	383	-1,916	2,298

Note: Total Debt = long-term debt + short-term debt. Financial data discrepancy due to rounding.
Source: company audit report, information provided by the company, S&P Global (China) Ratings.

Peer Comparison

We have selected Hangzhou Shangcheng District State Owned Capital Operation Group Co., Ltd. ("Shangcheng Capital"), Hangzhou Linping Urban Construction Group Co., Ltd. ("Linping Urban Construction"), and Suzhou Wujiang Urban Investment Development Group Co., Ltd. ("Wujiang Urban Investment") as peers to West Lake Construction Investment. West Lake Construction Investment, Shangcheng Capital and Linping Urban Construction are located in Xihu, Shangcheng and Linping districts of Hangzhou, respectively, while Wujiang Urban Investment is in Wujiang District, Suzhou. All are major district/county-level LGFVs and are comparable with West Lake Construction Investment in terms of functional orientation, business scope and geographical location.

In our view, Xihu District is similar to Shangcheng and Wujiang districts in terms of overall strength, and stronger than Linping District. Being the central urban districts of Hangzhou, both Xihu and Shangcheng districts rank above average economically and fiscally, and play important roles in political, economic, and cultural development. Wujiang, being the largest municipal district by area within the main urban area of Suzhou, is also a major industrial zone where numerous listed companies are located, ranking high among Top 100 districts in China. Linping, newly separated from the former Yuhang District, is farther from urban area. It is relatively weak in overall strength compared to the other districts, with its economic and fiscal size being moderate.

In our view, the assets of all four companies are more than 100 billion RMB, placing them at a leading level in China. West Lake Construction Investment is comparable to Wujiang Urban Investment in regional exclusivity but weaker than Shangcheng Capital. West Lake Construction Investment mainly operates in the northern part of Xihu District, while Wujiang Urban Investment mainly undertakes the development of Taihu New Town and the east Taihu Lake area. Both have strong business exclusivity within their respective zones. As an integrated LGFV and comprehensive operator in the district, Shangcheng Capital stands out with greater regional exclusivity and business diversity, along with the largest assets in scale.

In our opinion, West Lake Construction Investment's financial risk profile is similar to Linping Urban Construction and Wujiang Urban Investment, but weaker than that of Shangcheng Capital. All of them serve as major LGFVs in their respective regions, shouldering significant investment and financing responsibilities with higher debt burdens. However, Shangcheng Capital, as the integrated LGFV in the Shangcheng District, has diversified businesses and the greatest amount of revenue, which leads to a slightly better financial risk profile. All these entities are located in well-developed regions in China, enjoying a favorable environment for financing and high recognition in the capital market, with lower pressures of refinancing.

In our view, West Lake Construction Investment and its peers could obtain strong government support. The actual controller of each company is the local government department, and they all have clear functional roles and public welfare attributes. Moreover, the economic and fiscal strength of the districts in which they are located stands out as leading nationally.

Table 7

Operational Performance (2023, RMB, 100 million)

	West Lake Construction Investment	Shangcheng Capital	Linping Urban Construction	Wujiang Urban Investment
Location	Xihu	Shangcheng	Linping	Wujiang
Actual controller	District government	District government	District government	District government
GDP	2,087	2,668	1,067	2,377
General public budget revenue	234	245	145	240
Business scope	Infrastructure construction, land development and consolidation, resettlement housing, services, leasing, etc.	Infrastructure construction, land development and consolidation, resettlement housing, property rental and sale, etc.	Infrastructure construction, land development and consolidation, real estate sales (affordable and commercial housing), water supply and drainage, etc.	Infrastructure construction, land development and consolidation, resettlement housing, sewage treatment and pipe network, commercial housing sales, etc.
Total assets	943	1,782	1,428	1,028
Total revenue	12	108	64	38

Source: Public information, Wind, S&P Global (China) Ratings.

Table 8

Peer Comparison: Financials (2022-2023 two-year average, RMB, million)	West Lake Construction Investment	Shangcheng Capital	Linping Urban Construction	Wujiang Urban Investment
Revenue	991	10,459	6,268	3,449
EBITDA	293	2,857	1,526	792
Capital expenditure	6,999	3,188	2,875	1,721
Adjusted debt	69,269	63,808	72,786	52,695
Financial Ratios				
EBITDA margin (%)	28.9	27.4	24.4	22.8
Adjusted Debt/EBITDA (x)	253.9	22.4	47.7	67.7
EBITDA interest coverage (x)	0.1	1.3	0.7	0.5

Source: Company audit reports, Wind, S&P Global (China) Ratings.

Stand-alone Credit Profile

Liquidity

We view the company's liquidity as adequate and expect its source of liquidity to cover at least 1.2x liquidity use for the next 12 months.

In addition to debt maturities, main liquidity uses over the next 12 months would be on capex, including investment for projects under construction and pipelines. Main liquidity sources are cash and cash equivalent, debt financing and fund support from the government. The company has good relationships with banks, its financing channels are diverse, and it has good standing in the capital market, with liquidity expected to remain adequate.

Table 9

Liquidity Sources	Liquidity Uses
Nonrestricted cash and cash equivalent of 4.6 billion RMB.	Debt repayment of about 19.6 billion RMB.
Revolving or available credit lines, capital market financing and government support of 35 billion-39 billion RMB.	Capital expenditures of 11 billion-13 billion RMB.
	Net outflow of FFO of 2 billion-3 billion RMB.
	Net outflow of working capital of 0-5 billion RMB.

Note: Data for the next 12 months. As of the end of June 2024.

Source: Data provided by the company, company financial statements, S&P Global (China) Ratings.

Table 10

Debt Maturity Overview

Maturity	Amount (RMB, million)
Within one year	19,609
More than one year	44,030
Total	63,638

Note: Data as of the end of June 2024. Maturing debts include perpetual bonds classified under hybrid securities. Any discrepancies in the financial data are due to rounding.

Source: Data provided by the company, S&P Global (China) Ratings.

Track Record of Debt Repayment

According to the company's enterprise credit report and relevant documents, as of July 31, 2024, the company repaid all payable principal and interest of its debt in a timely manner, with no record of delinquency. According to public information as of the date of this report, the company has no record of credit default in the open capital market.

Issuer Credit Rating

We view that West Lake Construction Investment would receive "high" support from Hangzhou Municipal Government, mainly because:

Xihu District is one of the central districts of Hangzhou and is home to Zhejiang Provincial Party Committee, Provincial Government, and many other provincial capital administrative offices, giving it prominent regional advantages. The district's economic and fiscal strength is leading among all districts and counties in China, with manageable debt burdens and a favorable refinancing environment.

The government of Xihu District directly controls and manages the company with a shareholding ratio of 90.641%, indicating the company has a close relationship with the district government in terms of its equity and management structure. The government could exert significant influence over the company in management appointments, strategic planning, and daily operations. We believe that the government would maintain its shareholding and control over the company in the foreseeable future.

The company is responsible for infrastructure construction, land consolidation and development, as well as state-owned assets management in Xihu District excluding Hangzhou Zhijiang National Resort. Its operations have strong public welfare attributes, cover a wide range of area with clear functional roles, and exhibit strong regional exclusivity, as well as a large asset scale. Should any negative public opinion arise concerning the company, it would have a significantly adverse impact on the local financing environment.

Taking all factors into consideration, we assign an issuer credit rating of "AAA_{spc}" for West Lake Construction Investment.

Rating Score Snapshot

Issuer Credit Rating: AAA_{spc}/Stable

Business Risk Profile: 3/Satisfactory

Industry Risk: 2/Low

Competitive Position: 3/Satisfactory

Financial Risk Profile: 6/Highly leveraged

Anchor: bbb-

Adjustments:

Diversification: Neutral (no impact)

Capital Structure: Neutral (no impact)

Financial Policy: Neutral (no impact)

Liquidity: Adequate (no impact)

Management & Governance: Neutral (no impact)

Holistic Adjustment: Neutral (no impact)

Stand-alone Credit Profile: bbb_{spc}-

External Influence: +9

Appendix

Appendix 1: Key Financial Data and Indicators

Rated Entity's Key Financial Data and Indicators (RMB, million)	2021	2022	2023	2024.1-6
Cash and financial assets held for trading	2,135	2,941	4,183	4,572
Other receivables	5,901	7,063	10,067	9,488
Inventory	4,841	9,658	6,390	6,908
Long-term equity investment	146	207	189	184
Fixed assets	435	420	461	537
Projects on construction	44,022	53,059	62,901	68,529
Total assets	62,650	79,803	94,283	100,524
Short-term borrowings	460	599	7,334	7,298
Notes payable and accounts payable	97	240	392	505
Non-current liabilities maturing within one year	4,775	12,040	9,751	9,885
Long-term borrowings	24,981	20,132	30,349	34,470
Bond payable	6,578	8,321	4,792	4,973
Total equity	18,396	27,609	29,155	31,869
Revenue	601	810	1,173	621
Operating cost	358	559	749	449
Administrative expense	136	178	209	114
Financial expense	36	53	161	63
Investment gains	-13	32	34	-6
Total profit	113	134	89	4
Net profit	107	133	87	-3
Cash inflow from operating activities	3,164	5,048	2,413	2,855
Cash outflow from operating activities	1,182	8,307	2,105	3,749
Net cash flow from operating activities	1,982	-3,260	308	-895
Cash inflow from investing activities	245	23	224	7
Cash outflow from investing activities	10,069	5,653	8,519	5,705
Net cash flow from investing activities	-9,824	-5,630	-8,294	-5,698
Cash inflow from financing activities	15,618	38,732	29,633	17,820
Cash outflow from financing activities	7,908	29,390	20,429	10,830
Net cash flow from financing activities	7,710	9,342	9,204	6,990

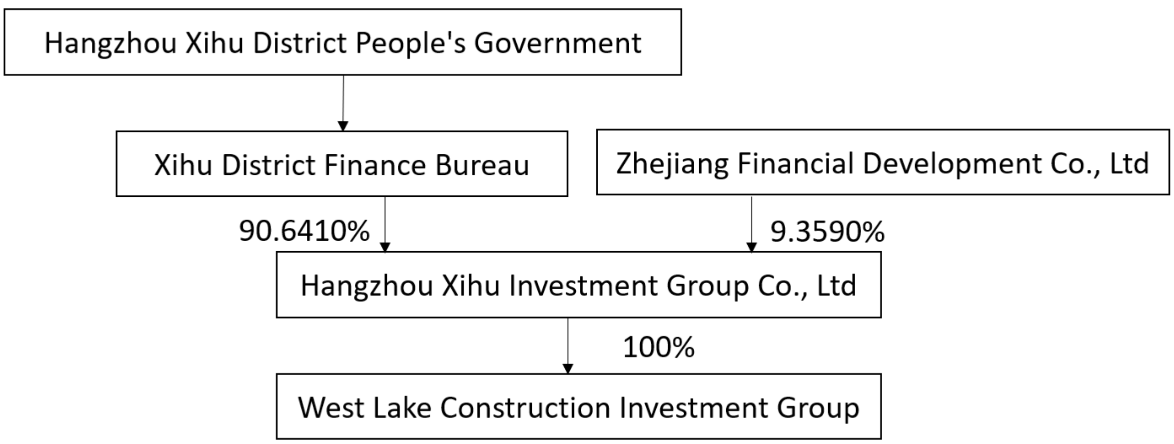
Adjusted Financial Data and Indicators	2021	2022	2023	2024.1-6
EBITDA	153	204	383	--
FFO	-2,161	-1,569	-1,916	--
Interest expense	2,309	1,773	2,298	--
Adjusted debt	51,198	63,674	74,865	--

Adjusted debt (excluding guarantees)	39,477	46,184	56,509	--
Capital expenditure	9,766	5,515	8,483	5,670
EBITDA margin (%)	25.5	25.2	32.6	--
Adjusted Debt/EBITDA (x)	334.3	312.2	195.6	--
EBITDA interest coverage (x)	0.1	0.1	0.2	--

Note: The financial data in the above table is based on the standard unqualified opinions audit reports by Beijing Xinghua Certified Public Accountants LLP (2021-2023), and unaudited interim financial statement from Jan to June 2024; 2. Restated figures are used in 2021-2022; 3. Adjusted financial data and indicators are those adjusted by S&P Global (China) Ratings; 4. "--" means data are unavailable.

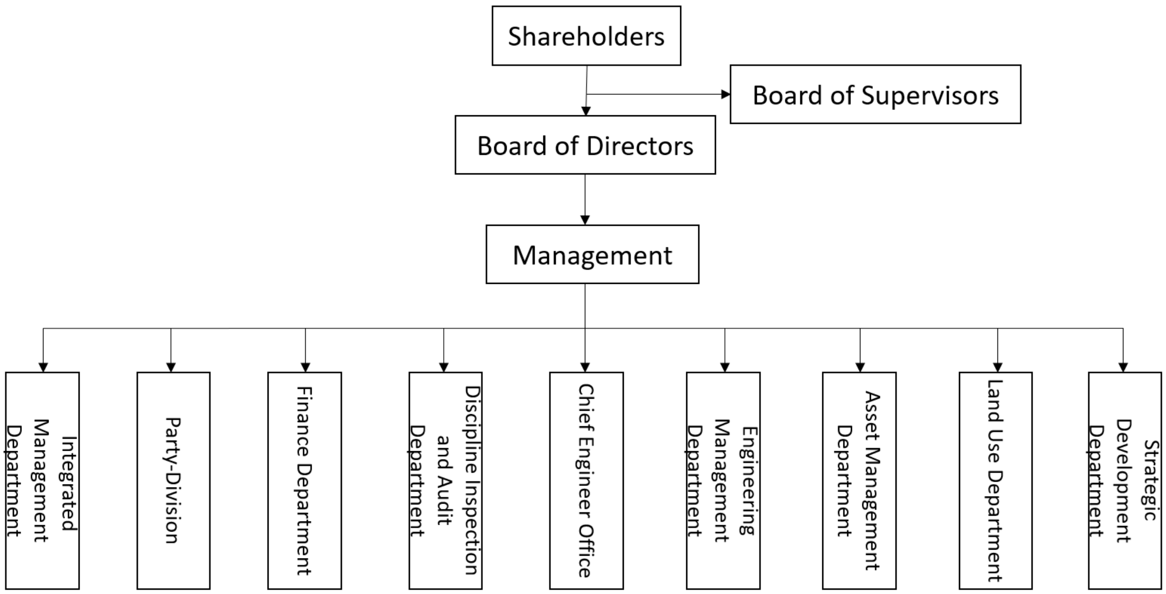
Source: Company audit reports, adjusted by S&P Global (China) Ratings.

Appendix 2: Ownership Structure of the Rated Entity as of End of August 2024



Source: Data provided by the company.

Appendix 3: Organization Structure of the Rated Entity as of End of August 2024



Source: Data provided by the company.

Appendix 4: Key Terms

Key Terms
EBITDA (reported) = Revenue - COGS- SG&A - R&D + D&A(reported) - Taxes and Surcharges - other operating expenses(income)
EBITDA = EBITDA (reported) + OLA rent - Capitalized development cost + Capitalized interest in COGS + Dividend received from equity investments + other adjustments
D&A = D&A(reported)+ OLA depreciation + other adjustments
EBIT = EBITDA (reported) + OLA rent - Capitalized development cost + Capitalized interest in COGS - D&A + non-operating income(expense) + other adjustments
Interest expense = interest expense(reported) + Capitalized interest + OLA interest expense + Hybrid dividend accrual + other adjustments
Cash interest paid = Cash Interest expense + Hybrid dividend cash payment + other adjustments
FFO = EBITDA - Interest expense + interest and dividend income - Current tax + other adjustments
CFO = CFO (reported) + OLA depreciation - Capitalized development cost - Hybrid dividend cash payment - Cash interest expense + Dividends received + other adjustments
Capital expenditure = Capital expenditure(reported)- Capitalized development cost + other adjustments
FOCF = CFO - Capital expenditure
Dividends = Cash dividends + Dividends to minority interest - Hybrid dividend cash payments
DCF = FOCF - Dividends
Short-term debt = Short-term loan + Financial liabilities held for trading + (Account payable - margin for payables) + Current portion of non-current liabilities (interest-bearing) + Interest payable + Other interest-bearing short-term debt
Long-term debt = Long-term loan + Bond + Financial lease payable+ Lease obligation + Provisions - guarantees & litigations + other interest-bearing long-term debt

Adjusted Debt = Short-term debt + Long-term debt + OLA debt - Surplus cash + Asset retirement obligation debt adjustment + Hybrid securities + External guarantees & litigations + other adjustments
Capital = Total Equity - Hybrid securities + Debt + Deferred taxes + other adjustment
EBITDA interest coverage = EBITDA/Interest expense
FFO interest coverage = (FFO + Interest expense)/ Cash interest paid
Return on invested capital = EBIT/2-year average of invested capital
EBITDA margin = EBITDA/revenue

Appendix 5: Ratings Definitions

Category	Definition
AAA_{spc}	The repayment ability is extremely strong, generally not impacted by any adverse economic environment, and the default risk is extremely low.
AA_{spc}	The repayment ability is very strong, not considerably impacted by any adverse economic environment, and the default risk is very low.
A_{spc}	The repayment ability is comparatively strong, comparatively vulnerable to the impact of adverse economic environment, and the default risk is comparatively low.
BBB_{spc}	The repayment ability is average, comparatively impacted by adverse economic environment, and the default risk is average.
BB_{spc}	The repayment ability is comparatively weak, materially impacted by adverse economic environment, and the default risk is comparatively high.
B_{spc}	The repayment ability relies comparatively on fair economic environment and the default risk is very high.
CCC_{spc}	The repayment ability relies extremely on fair economic environment and the default risk is extremely high.
CC_{spc}	Lower protection in situation of bankruptcy or reorganization and the repayment of debt may not be generally guaranteed.
C_{spc}	Unable to repay the debt.

Note: Ratings from AA_{spc} to CCC_{spc} may be added a "+" or "-" sign for minor adjustment to indicate a slightly higher or lower rating.

Appendix 6: Surveillance Plan

S&P Ratings (China) Co., Ltd. shall monitor the credit quality of the rated issuer on a periodic and an ongoing basis. If any material credit events are likely to change the credit quality of the issuer, we will conduct ad-hoc surveillance, and determine whether the outstanding ratings need to be adjusted.