

CCXAP assigns first-time long-term credit rating of BBB_{g-} to Zigong Construction & Engineering Co., Ltd., with stable outlook.

Hong Kong, 25 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_{g-} to Zigong Construction & Engineering Co., Ltd. (“ZCEC” or the “Company”), with stable outlook.

The BBB_{g-} long-term credit rating of ZCEC reflects Zigong Municipal Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Zigong Municipal Government’s capacity to support reflects it as a national demonstration zone for industrial transformation and upgrading of old industrial cities, which has relatively good economic fundamentals.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) high sustainability for public projects; (2) good predictability of government support; and (3) reasonable debt leverage. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities with controllable risks; (2) great capital expenditure pressure for project construction; and (3) relatively large exposure to high-cost non-standard financing.

Corporate Profile

Formerly known as Sichuan Shenhai Construction Engineering Co., Ltd., ZCEC was acquired by Zigong Urban Construction Investment and Development Group Co., Ltd. (“ZUCI”) in 2014. ZCEC is primarily engaged in infrastructure construction projects in Zigong City. It also undertakes commercial activities such as merchandise sales, engineering construction, and property leasing. As of 31 December 2022, the Company is wholly owned by ZUCI and ultimately controlled by the Zigong Municipal Government State-owned Assets Supervision and Administration Commission (“Zigong SASAC”).

Rating Rationale

Credit Strengths

Major infrastructure construction entity in Zigong City with high sustainability for public projects. In December 2022, ZUCI injected a large amount of infrastructure projects with a total book value of RMB2.7 billion to the Company. Since then, the Company becomes one of the major infrastructure construction entities in Zigong City. We believe the Company will maintain its important position in local public projects in Zigong City.

Good predictability of government support. ZCEC has received strong support from the Zigong Municipal Government including asset injections, cash injections, and financial subsidies. Given the strategic role of ZCEC in Zigong City, we expect the Company will continue to receive support from the Zigong Municipal Government in the future.

Reasonable debt leverages due to large amount of capital injection. Due to the large amount of capital injection by the Zigong Municipal Government in 2022, ZCEC's debt leverage was significantly eased. Its capitalization ratio had decreased from 62.3% at end-2020 to 21.6% at end-2022, while its total debt had increased from RMB1.6 billion to RMB2.4 billion over the same period.

Credit Challenges

Medium exposure to commercial activities with controllable risks. In addition to public activities, ZCEC is also involved in other commercial activities such as merchandise sales, engineering construction, and property leasing. We estimate that the Company has medium commercial exposure as the proportion of commercial business assets accounts for around 30% of its total assets.

Relatively large reliance on high-cost non-standard financing. Around 70.5% of the Company's debt was provided by bank loans in 2022, with an average financing cost of 6.4%. As of 31 December 2022, non-standard financing accounted for around 29.5% of its total debt, with an average financing cost of 8.5%. In addition, the Company has not issued any bonds in the public debt capital market, and it plans to issue offshore bonds to improve its debt structure.

Rating Outlook

The stable outlook on ZCEC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in public policy projects in Zigong City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in company characteristics decrease the local government's willingness to support, such as reduced sustainability for public policy projects.

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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http://www.ccxap.com/en/rating_services/category/6/



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