

## Credit Opinion

28 March 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> +
Outlook	Stable

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## Quanzhou Urban Construction Group Co., Ltd.

### Surveillance credit rating report

### CCXAP affirms Quanzhou Urban Construction Group Co., Ltd.'s long-term credit rating at A<sub>g</sub>+, with stable outlook

#### Summary

The A<sub>g</sub>+ long-term credit rating of Quanzhou Urban Construction Group Co., Ltd. ("QUCG" or the "Company") reflects Quanzhou Municipal Government's (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Quanzhou Municipal Government's capacity to provide support reflects the Quanzhou City's economic importance in Fujian Province and robust private economy, with ongoing growth in economic and fiscal strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important policy role as the most important urban development and operation entity in Quanzhou City; (2) dominant role in local public activities with high sustainability; and (3) track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial business activities; (2) rapid debt growth with large capital expenditure; and (3) moderate asset liquidity.

The stable outlook on QUCG's rating reflects our expectation that Quanzhou Municipal Government's capacity to provide support will remain stable, and the Company will maintain its important role in land consolidation and infrastructure construction in Quanzhou City over the next 12 to 18 months.

## Rating Drivers

- Important policy role as the most important urban development and operation entity in Quanzhou City
- High sustainability of local public activities, with large capital expenditure pressure
- Medium exposure to commercial activities
- Track record of receiving government support
- Rapid debt growth driven by large capital expenditure needs
- Moderate asset liquidity
- Good access to funding

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Quanzhou Municipal Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Quanzhou Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in importance of its policy role, or material decrease in government payments.

## Key Indicators

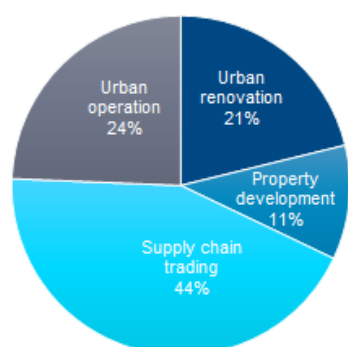
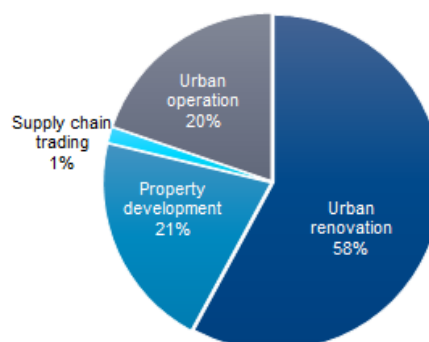
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	124.6	159.3	179.7	198.3
Total Equity (RMB billion)	62.5	75.8	80.3	81.3
Total Revenue (RMB billion)	4.7	8.6	11.7	6.8
Total Debt/Total Capital (%)	33.3	38.3	43.3	47.9

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Founded in 2016, QUCG is the most important state-owned enterprise ("SOE") in Quanzhou City with the largest asset size. It plays an important public role in land consolidation, infrastructure construction, resettlement housing construction, water supply, and shantytown renovation. The Company also engages in some commercial activities such as supply chain trading, urban operation, and property development. As of 30 September 2024, the State-owned Assets Supervision and Administration Commission of Quanzhou City ("Quanzhou SASAC") held 90% and the Fujian Provincial Department of Finance held the remaining 10% of the Company's shares, respectively. It is ultimately controlled by Quanzhou SASAC.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding chart as of 30 September 2024**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Quanzhou Municipal Government has a strong capacity to provide support given its economic importance in Fujian Province and robust private economy, as well as ongoing growth in economic and fiscal strength.

Fujian Province is located in the southeastern coast of China and is recognized as one of the provinces with the fastest economic development in China. In 2024, Fujian recorded a gross regional product ("GRP") of RMB5.8 trillion, with a GRP growth rate of 5.5% year-on-year ("YoY"), ranking 8<sup>th</sup> in terms of GRP among all provinces in China. Its general budgetary revenue achieved RMB361.5 billion in 2024.

Located in the southeast of Fujian Province, Quanzhou City connects Putian and Fuzhou in the north and Xiamen in the south. It is one of the "reforms and opening-up" area in China. The pillar industries in Quanzhou City include textiles, petrochemicals, machinery and equipment, building materials and home furnishing. With the ongoing industrial development and robust private economy, the economic strength of Quanzhou City has continuously grown. The GRP of Quanzhou City increased from RMB1,217.3 billion in 2023 to RMB1,309.5 billion in 2024, ranking 2<sup>nd</sup> among 9 prefecture-level cities in Fujian Province. Quanzhou Municipal Government recorded a public budgetary revenue of RMB57.3 billion. However, its fiscal balance is moderate with general budgetary revenue/general budgetary expenditure ratio of 67.9%. Its debt burden is also moderate. In 2024, the local government's outstanding debt grew to RMB266.1 billion, accounting for 20.3% of GRP.

**Exhibit 4. Key economic and fiscal indicators of Quanzhou City**

	2022FY	2023FY	2024FY
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GRP (RMB billion)	1,210.3	1,217.3	1,309.5
GRP Growth (%)	3.5	4.8	6.2
General Budgetary Revenue (RMB billion)	52.7	58.1	57.3
General Budgetary Expenditure (RMB billion)	80.6	85.0	84.3
Local Government Debt (RMB billion)	211.3	234.3	266.1

Source: Statistic Bureau of Quanzhou City, CCXAP research

## Government's Willingness to Provide Support

### Important policy role as the most important urban development and operation entity in Quanzhou City

There are 5 main SOEs in Quanzhou City, each with different positioning, including urban development and operation, transportation construction, water conservancy, cultural and tourism, and financial services. QUCG is the largest SOE by total assets and the most important urban development and operation entity in Quanzhou City. It is also responsible for the development of new district and other major projects authorized by the local government. The Company focuses on four major business sectors: urban renovation, property development, urban operation, and supply chain trading. It has completed a large amount of land consolidation, infrastructure construction, and resettlement housing construction projects in Quanzhou City, making great contributions to the urbanization of the region. Considering its strategic significance to the development of Quanzhou City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

### High sustainability of local public activities, with large capital expenditure pressure

Positioned as an urban construction and operation service provider, QUCG's public activities mainly include urban renovation, resettlement housing construction, and water supply in Quangang District. The Company has considerable projects in the pipeline, which can ensure the sustainability of the business, but exert large capital expenditure pressure.

QUCG is entrusted by the local government to undertake the urban renovation projects, including land acquisition, demolition, compensation and resettlement. The business scope of the urban renovation projects covers 5 main areas in Quanzhou City, with a total area of over 20,000 mu. As of 30 September 2024, the Company had 5 major urban renovation projects with an estimated total investment amount of around RMB192.9 billion, and an outstanding amount of RMB77.9 billion. Fortunately, the large capital expenditure pressure can be partly supported by government special funds. In 2023, the Company received government special funds of RMB1.5 billion.

The Company is also responsible for the infrastructure construction projects in Quanzhou City, such as roads, and embankment projects. Most of the infrastructure construction projects are incorporated into urban renovation and the Company achieves fund balance through settlement with local fiscal department. Some of the infrastructure projects are conducted by signing agency construction agreements with the entrusting parties.

Furthermore, the Company is responsible for the Quangang Petrochemical Industrial Park and safety control area project, involving demolition and land leveling of residential areas within the area, as well as the improvement of the green landscape. To support the project construction, the local government has provided special funds, special bond funds, and bond swap funds to the Company. As of 30 September 2024, the Company had totally invested RMB31.8 billion into the project. The Quanzhou Municipal Government has provided policy and financial support to solve the funding gap of the safety control area project. In addition to the special subsidies of RMB1.4 billion and the municipal subsidies of RMB1.2 billion, it also assists Quangang

District in issuing shantytowns transformation special bonds of RMB2.0 billion for the safety control area project and special bonds of RMB400.0 million for park infrastructure.

QUCG is also responsible for the construction of resettlement housing in the 5 main areas of Quanzhou City. The Company mainly obtained the land through government allocation and self-acquisition. The completed resettlement housings are mainly used for resettlement. As of 30 September 2024, the Company had 13 resettlement housing projects, with a total planned investment of RMB11.2 billion and an outstanding amount of RMB4.3 billion.

In addition, QUCG is the sole water supply and water installation entity in Quangang District via its pipe networks of 1,258.5 kilometers. As of 30 September 2024, the Company had 3 water plants with a daily water supply capacity of 200,000 tons. Benefited by the rapid development of Quangang District, the total water sales of Quangang District have increased steadily over the past few years, which ensure the sustainability of the business.

### **Medium exposure to commercial activities**

In addition to public activities, QUCG is involved in various commercial activities such as supply chain trading, property development, property leasing, and engineering construction. We consider QUCG's commercial business exposure to be medium, as its market-driven businesses account for around 15-20% of its total assets.

QUCG's supply chain trading business includes domestic and international trading. Its international trading business mainly involves trading of handicrafts, textiles, and clothing, while domestic trading business mainly involves trading of commodity products, such as zinc ingots, aluminum ingots, copper ore, non-ferrous metals. To cope with the decrease in trading revenue caused by the international trade frictions and exchange rate fluctuations, the Company has expanded its domestic trading business since 2023, and the revenue of supply trading mainly contributed by domestic trading. For the first nine months of 2024, the top 5 customers and suppliers accounted for 27.5% of the total sales and 35.1% of the total procurement, respectively. The revenue of the segment increased significantly from RMB1.5 billion in 2022 to RMB5.1 billion in 2023. In addition, the supply chain trading business recorded a low gross profit rate of 0.6% in 2023, due to the low profitability of commodity products trading.

Apart from the construction of resettlement housing, the Company also participates in the construction of commercial housing. The Company primarily acquires land through public bidding and carries out the projects using a pre-sale model. As of 30 September 2024, the Company had 10 commercial housing projects under construction or planning, with a total planned investment of RMB23.0 billion and an outstanding amount of RMB13.8 billion, exerting large capital expenditure pressure. However, it faces a certain destocking pressure as the sales progress of two projects is lower than 50%. Moreover, the property development business is subject to the slowdown of property market in China and may exert certain business risks to the Company.

In addition, the urban operation business mainly consists of project management, property leasing, engineering construction, providing supplemental income to the Company. The Company owns a large amount of leasable state-owned properties, such as car parks, office buildings, and shopping malls. Benefited by the increased leasable properties, the Company's property leasing income increased from RMB98.0 million in 2022 to RMB179.0 million in 2023. Moreover, the Company undertakes the engineering construction and mainly acquires the project through public bidding. As of 30 September 2024, the Company held a total contract amount of RMB1.0 billion, most of which are located in Licheng District of Quanzhou City. In 2023, the Company recorded an engineering construction income of RMB807 million.

### **Track record of receiving government support**

As the most important urban development and operation entity in Quanzhou City, QUCG has a track record of receiving support from the Quanzhou Municipal Government. These supports take various forms, such as government subsidies, capital injections, and equity transfers. In 2023, the local government injected cash of RMB2.5 billion to the Company. In addition, the local government provided total subsidies of RMB144.9 million to the Company from 2021 to 2024Q3. The local government also regularly makes project payments to the Company for its public policy projects. Overall, given its important position and contribution to regional economic development, we believe that QUCG will receive ongoing government support to support its business operations.

### **Rapid debt growth driven by large capital expenditure needs**

With ongoing financing for its construction projects in recent years, QUCG demonstrates a rapid debt growth. The Company's total debt increased from RMB47.1 billion at end-2022 to RMB74.8 billion as of 30 September 2024, while its total capitalization increased from 38.3% to 47.9% over the same period. The Company faces certain liquidity pressure as short-term debt accounted for 32.6% of total debt as of 30 September 2024. We expect that, given its large future capital needs, the Company's debt burden will continue to grow in the next 12 to 18 months.

In terms of contingent liability, as of 30 September 2024, the Company's external guarantee amount was RMB2.9 billion, accounting for 3.6% of its net assets. Most of the external guarantees are provided to local state-owned enterprises in Quanzhou City.

### **Moderate asset liquidity**

Furthermore, QUCG has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of receivables, inventories, and other non-current assets, which accounted for 82.1% of its total asset as of 30 September 2024. The inventories and other non-current assets are mainly investment costs for its public policy projects and resettlement housing projects, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. In addition, the Company's restricted asset accounted for 1.0% of total asset.

### **Good access to funding**

QUCG has good access to funding as reflected by its good banking relationships and access to the onshore debt capital market. Bank loans are the main financing channel of the Company, accounting for about 48.0% of its total debt. It has sufficient standby liquidity. As of 30 September 2024, the Company obtained total credit facilities of RMB55.6 billion from large domestic commercial and policy banks, with available credit facilities of RMB24.8 billion.

The Company has a track record of fund-raising activities in onshore debt capital market, including issuance of MTNs, SCPs, and corporate bonds. The Company had raised about RMB3.8 billion in onshore debt market from January 2024 to January 2025. In addition, the Company expanded its funding channel to offshore debt market. In May 2024, the Company issued offshore bond with a total issuance amount of RMB1.5 billion, with coupon rate of 3.4%. However, a relatively large amount of bond financing may make the Company vulnerable to the fluctuations of capital market. Additionally, the Company has certain amount of non-standard financing, such as financial leasing and trust financing, which accounted for around 22.2% of its total debt.

## ESG Considerations

QUCG bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Quzhou City. Demographic changes, public awareness and social priorities shape government's target for QUCG, or affect the government's propensity to support the Company.

QUCG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).



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