

## Credit Opinion

19 June 2023

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

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## Zhuzhou Geckor Group Company Ltd

### Surveillance credit rating report

### CCXAP affirms Zhuzhou Geckor Group Company Ltd's long-term credit rating at BBB<sub>g</sub>-, with stable outlook.

#### Summary

The BBB<sub>g</sub>- long-term credit rating of Zhuzhou Geckor Group Company Ltd ("Zhuzhou Geckor" or the "Company") reflects (1) the local government's relatively strong capacity to provide support, and (2) the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Zhuzhou High-tech Zone's status as the only state-level High-tech Zone in Zhuzhou City, with ongoing economic growth and good fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) monopoly market position in the primary land development of Zhuzhou High-tech Zone; (2) high business sustainability and sufficient land resources; and (3) track record of receiving government payments.

However, the Company's rating is constrained by its (1) medium exposure to commercial risks; (2) high debt leverage and short-term debt servicing pressure; and (3) moderate asset liquidity.

The stable outlook on Zhuzhou Geckor's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its monopoly market position in Zhuzhou High-tech Zone.

## Rating Drivers

- Monopoly market position in the primary land development of Zhuzhou High-tech Zone
- High business sustainability and sufficient land resources
- Track record of receiving government payments
- Medium exposure to commercial risks, subject to the market conditions in Zhuzhou High-tech Zone
- High debt leverage and short-term debt servicing pressure
- Moderate asset liquidity

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improvement in debt management or decrease in exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide 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 government payments or weakened funding capabilities.

## Key Indicators

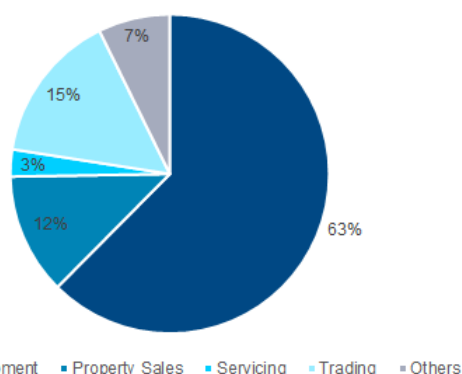
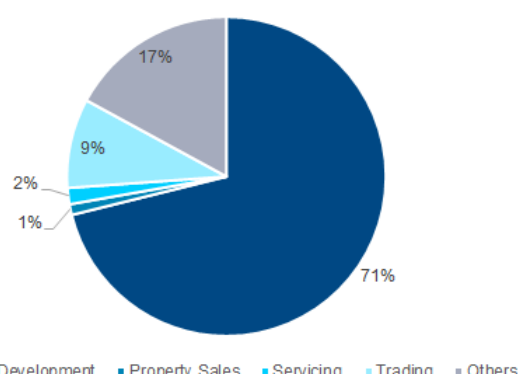
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	93.1	89.4	91.8	93.3
Total Equity (RMB billion)	39.2	36.1	33.1	32.1
Total Revenue (RMB billion)	8.4	6.0	6.1	0.8
Total Debt/Total Capital (%)	56.3	57.5	59.7	60.3

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

Source: CCXAP research

## Corporate Profile

Established in 1999, Zhuzhou Geckor is the sole primary land developer for the Hexi Demonstration Park of Zhuzhou High-tech Zone. After its acquisition of Hunan Tanyes Group Co., Ltd. ("Hunan Tanyes") in 2020, the Company is positioned to support the industrialization and urbanization of Zhuzhou High-tech Zone, and is mainly responsible for primary land development, property development and management, and supporting services. In December 2022, 90% of the Company's shares were transferred to Hunan Geckor Investment Holding Group Co., Ltd., and Hunan State-owned Investment Management Co., Ltd. held the remaining 10% of the shares. The Administration Committee of Zhuzhou High-tech Zone is the ultimate controlling shareholder of the Company.

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding and organization chart as of 31 March 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Support

We believe the local government has a relatively strong capacity to provide support given its status as the only state-level High-tech Zone in Zhuzhou City, with ongoing economic growth and good fiscal balance.

Located in the east of Hunan Province, Zhuzhou City is a key city in the Changsha-Zhuzhou-Xiangtan Economic Integration Area. It is also one of the most important transportation hubs in central China, with the Beijing-Guangzhou Railway and the Shanghai-Kunming Railway lines intersecting in the city. The pillar industries in Zhuzhou have formed a “3+5” industrial layout, including core industries of rail transportation, aviation, and automobile, and emerging industries of new energy, new materials, electronic information, bio-pharmaceutical, and environmental protection. In 2022, Zhuzhou City recorded gross regional product (“GRP”) of RMB361.7 billion, raking 5<sup>th</sup> by GRP among 14 prefecture-level cities in Hunan Province. The general budgetary revenue of Zhuzhou City increased from RMB18.0 billion in 2021 to RMB19.1 billion in 2022. Zhuzhou City’s fiscal balance is weak, with the ratio of general budgetary revenue to general budgetary expenditure being 35.3% in 2022. As of end-2022, the government debt balance of Zhuzhou was RMB101.4 billion, accounting for 28% of GRP.

**Exhibit 4. Key Economic and Fiscal Indicators of Zhuzhou City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	310.6	342.0	361.7
GRP Growth (%)	4.1	8.3	4.5

General Budgetary Revenue (RMB billion)	20.5	18.0	19.1
General Budgetary Expenditure (RMB billion)	47.0	48.7	54.1
Local Government Debt (RMB billion)	80.9	90.6	101.4

Source: Statistic Bureau of Zhuzhou City, CCXAP research

Located on the west bank of the Xiang River in Zhuzhou, Zhuzhou High-tech Zone (Tianyuan District) was established in May 1992 and was approved as a state-level High-tech Zone in December 1992. It consists of four main industrial parks (namely Hexi Demonstration Park, Tianxin Industrial Park, Dongjiaduan Industrial Park, and Jinshan Science & Technology Industrial Park), with a total area of 327.6 square kilometers (“km<sup>2</sup>”) and over 484 thousand permanent residents. At the moment, the local development is concentrated in Hexi Demonstration Park, which is the largest out of the four industrial parks. It has a total planning area of 66,236 mu (about 44 km<sup>2</sup>) that is split into five main industrial sub-parks.

Leveraging on the development of pillar industries such as auto parts, electronic information, and bio-pharmaceutical, Zhuzhou High-tech Zone has achieved ongoing economic growth. In 2022, GRP of Zhuzhou High-tech Zone increased by 4.5% year-on-year (“YoY”) to RMB54.5 billion, and its general budgetary revenue amounted to RMB4.3 billion, with the proportion of tax revenue increasing to 87.2%. Besides, Zhuzhou High-tech Zone has good fiscal balance as reflected by its general budgetary revenue to general budgetary expenditure ratio of 81.7%. As of end-2022, the government debt balance in Zhuzhou High-tech Zone was RMB8.7 billion, accounting for 16% of GRP.

#### **Exhibit 5. Key Economic and Fiscal Indicators of Zhuzhou High-tech Zone**

	2020FY	2021FY	2022FY
GRP (RMB billion)	46.7	51.3	54.5
GRP Growth (%)	4.1	8.3	4.5
General Budgetary Revenue (RMB billion)	5.3	4.8	4.3
General Budgetary Expenditure (RMB billion)	5.3	5.5	5.2
Local Government Debt (RMB billion)	4.0	8.0	8.7

Source: Statistic Bureau of Zhuzhou High-tech Zone, CCXAP research

### **Government Willingness to Support**

#### **Monopoly market position in the primary land development of Zhuzhou High-tech Zone, with high business sustainability and sufficient land resources**

Zhuzhou Geckor is the sole district-level investment and financing platform in Zhuzhou High-tech Zone, engaging in industrial park development and services, and urban and rural development through its subsidiaries, with a purpose to provide optimal conditions for attracting new investments. We believe that the Company’s monopoly position in Zhuzhou High-tech Zone is unlikely to be replaced in the foreseeable future.

Commissioned by the Administration Committee of Zhuzhou High-tech Zone to undertake land acquisition and demolition, levelling, and road pavement, Zhuzhou Geckor is the sole primary land developer for Hexi Demonstration Park (including Tanyes Technology Park) of Zhuzhou High-tech Zone. Supported by its sufficient land projects in the pipeline, the sustainability of primary land development business is high. At present, the Company focuses on the land development in eight industrial sub-parks, with total area of 62.9 thousand mu. Nevertheless, they have exerted large capital expenditure pressure on the Company. As of 31 March 2023, the

Company had invested RMB37.8 billion into the land projects under development, with uninvested amount of RMB4.6 billion. In addition, this business is susceptible to local land policies and market conditions.

The Company has completed the construction of 1 shantytown renovation and 4 affordable housing projects, with total investment of RMB1.9 billion and unreceived government payment of RMB0.3 billion. However, there is no related project under construction or planning, with sustainability subject to uncertainty.

### **Medium exposure to commercial risks, subject to the market conditions in Zhuzhou High-tech Zone**

Zhuzhou Geckor's commercial businesses include sales and leasing of properties, property management and servicing, industrial investment, trading, and engineering construction, whose assets accounted for about 30% of total assets at end-2023Q1. Although the proportion of its commercial assets is relatively high, we believe the Company's commercial risk is manageable, as most of its commercial activities are still conducted under government guidance with an aim to better facilitate the industrialization of and attract talents to Zhuzhou High-tech Zone.

Zhuzhou Geckor has been engaged in construction of industrial premises, commercial properties, office buildings, and public rental housing, which are sold or leased to the settled enterprises and its employees to attract investment in Zhuzhou High-tech Zone. There are still large capital needs from the property construction projects in the pipeline, exerting certain expenditure pressure to the Company. As of 31 March 2023, the Company had 8 property projects under construction or planning, with estimated total investment of RMB3.7 billion and uninvested amount of RMB1.7 billion. However, the sale and leasing of the Company's properties are largely affected by the industrial development and investment promotion policies in Zhuzhou High-tech Zone. In 2022, the revenue from property sale decreased by 11.8% YoY to RMB750.8 million, while the revenue from property leasing decreased by 21.3% YoY to RMB208.9 million. To attract investment, the selling or leasing prices of these properties are generally lower than market prices, resulting in low profit margin. The local government will provide subsidies to the Company to cover any losses that have occurred.

The engineering construction business of the Company mainly involves undertaking municipal engineering and housing construction projects for subsidiaries and government departments of Zhuzhou High-tech Zone. As of 31 March 2023, the Company had 12 projects under construction, with estimate total investment of RMB496 million and uninvested amount of RMB255 million.

To support local industrial development, the Company has invested in Zhuzhou's "3+5" industrial system through the establishment of 7 industrial investment funds, with planned contribution of RMB6.9 billion and contributed amount of RMB0.5 billion, indicating large capital contribution pressure. In addition, the industrial investment business is susceptible to local industrial development and investment promotion, with uncertain return and long payback period.

Zhuzhou Geckor has started its trading business since 2020, with trading products mainly including non-ferrous metals, data link terminals, and LED lamps. The trading business provides supplementary income to the Company, accounting for about 15% of its total revenue in 2022. In addition, with the procurement from top 5 suppliers accounting for only 17% of total procurement, the concentration risk of the trading business is manageable.

Zhuzhou Geckor also involves property management, servicing, and scenic spot operation businesses. However, the income scale of these businesses is relatively small, making little contribution to the Company's revenue and profit.

### **Track record of receiving government payments**

Zhuzhou Geckor has a track record of receiving support from the local government in terms of subsidies, asset transfer, and capital injection. From 2020 to 2022, the Company had received government subsidies of over RMB600 million, including special funds for projects and tax refunds. Over the same period, it had been transferred assets of RMB77.1 million and injected capital of RMB109.2 million, including fiscal special funds and debt swap funds. As the local government will make project payments after completion of land projects within two years, the Company regularly receives project payments from the local government, and is expected to receive payments of about RMB8.2 billion from the completed projects in the next three years. We expect that the Company will continue to receive support from the local government given its important position and their close relationship.

### **Good access to funding**

Zhuzhou Geckor has a good access to funding. The Company has maintained good relationship with large domestic commercial banks and policy banks. As of 31 March 2023, it had obtained a total bank credit facilities of RMB57.8 billion, with the unutilized portion of RMB13.2 billion, indicating sufficient standby liquidity. The Company is also a frequent issuer in bond market. From 2020 to March 2023, the Company had issued various bond products, including CPs, MTNs, corporate bonds, and USD bonds, raising RMB18.6 billion and USD50 million. However, the proportion of indirect financing is relatively high, accounting for about 55% of its total debt, indicating that its financing may be susceptible to debt capital market. In addition, the Company's exposure to non-standard financing is manageable, accounting for about 15% of total debts.

### **High debt leverage and short-term debt servicing pressure**

Due to the increase in investment in construction projects, Zhuzhou Geckor has high debt leverage and short-term debt servicing pressure. As of 31 March 2023, the Company's total debt amounted to RMB48.8 billion, with high total capitalization ratio of 60.3%. Besides, its debt structure needs to be improved as the short-term debt has continued to increase, accounting for about 40% of total debt at end-2023Q1. We expect that its debt leverage will maintain at a high level given the large capital needs from construction projects.

### **Moderate asset liquidity**

Zhuzhou Geckor's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total assets are mainly inventories and investment properties with weak liquidity. As of 31 March 2023, the inventories mainly consisted of construction costs from the land and property development projects, accounting for 60.4% of total assets, while the investment properties mainly consisted of leased industrial premises and office buildings, accounting for 13.6% of total assets. Furthermore, as of 31 March 2023, the Company had pledged assets of RMB15.2 billion for loans, accounting for 16.3% of total assets.

## **ESG Considerations**

The Company is exposed to environmental risks because it has undertaken infrastructure construction and primary land development projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

In terms of social concerns, the Company plays a crucial role in the social welfare of Zuzhou City by providing public housing and supporting services for enterprises settled in Zhuzhou High-tech Zone.

In terms of corporate governance, the Company has higher requirements in terms of daily operation management and control of its subsidiaries. It has established a series of supervision in investment and financing management, budget management, external guarantee, safety and management of subsidiaries.

## **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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