

Credit Opinion

23 January 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

Analyst Contacts

Olivia Feng +852-2860 7133

Senior Credit Analyst

olivia_feng@ccxap.com

Waldo Li +852-2860 7137

Assistant Credit Analyst

waldo_li@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Pujiang Urban Construction Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Pujiang Urban Construction Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Pujiang Urban Construction Investment Group Co., Ltd. (“PUCI” or the “Company”) reflects (1) Pujiang County 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 Pujiang County Government’s capacity to provide support reflects Pujiang County’s geographic advantage, with ongoing economic growth. However, the capacity to provide support is constrained by its relatively weak fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong market position in the development of Pujiang County; (2) status as the sole water supplier in Pujiang County; and (3) good track record of receiving ongoing government payments.

However, the rating is constrained by the Company’s (1) fast debt growth and moderate asset liquidity; (2) high capital expenditure pressure from area development projects; and (3) medium contingent risks resulting from external guarantee.

The stable outlook on PUCI’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its important position in infrastructure construction projects in Pujiang County.

Rating Drivers

- Strong market position in the development of Pujiang County
- Low but increasing exposure to commercial activities
- High capital expenditure pressure from area development projects
- Good track record of receiving ongoing government payments
- Fast debt growth and moderate asset liquidity
- Medium contingent risks resulting from external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 improvement in debt management or asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	9.8	12.4	15.1	16.9
Total Equity (RMB billion)	5.2	7.0	8.0	7.9
Total Revenue (RMB billion)	0.2	0.3	0.5	0.3
Total Debt/Total Capital (%)	39.8	36.0	38.4	48.1

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

Source: CCXAP research

Corporate Profile

Established in 2018, the Company's business involves public services including infrastructure construction, resettlement housing development and water supply in Pujiang County. It is an important local infrastructure investment and financing company ("LIIFC") in Pujiang County. PUCI also conducts commercial business such as area development projects construction, commodity sales and agency service. As of 30 June 2023, Pujiang State-owned Capital Investment Group Co., Ltd. ("PSCI") is the sole shareholder of the Company, and the actual controller is the State-Owned Assets Supervision and Administration Office of Pujiang County Government ("Pujiang SASAO").

Exhibit 1. Revenue structure in 2022

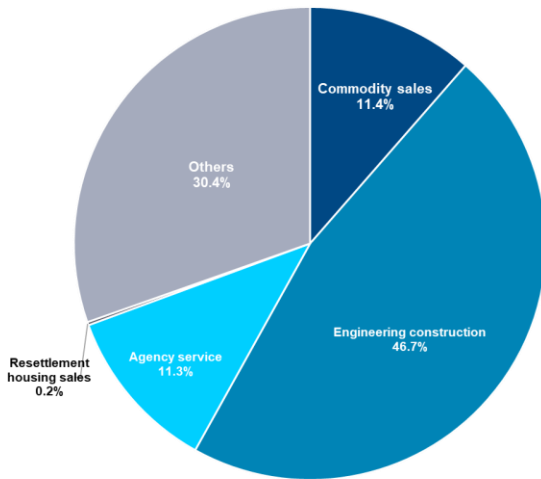
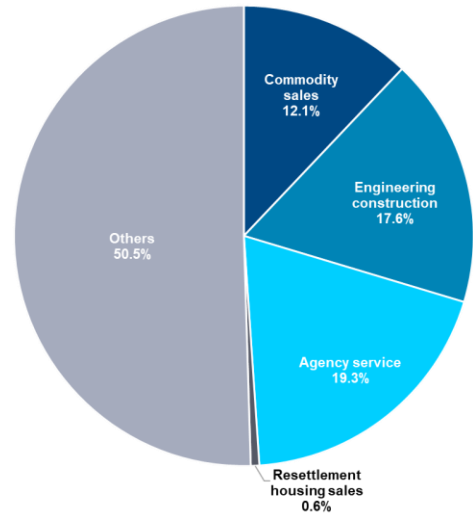
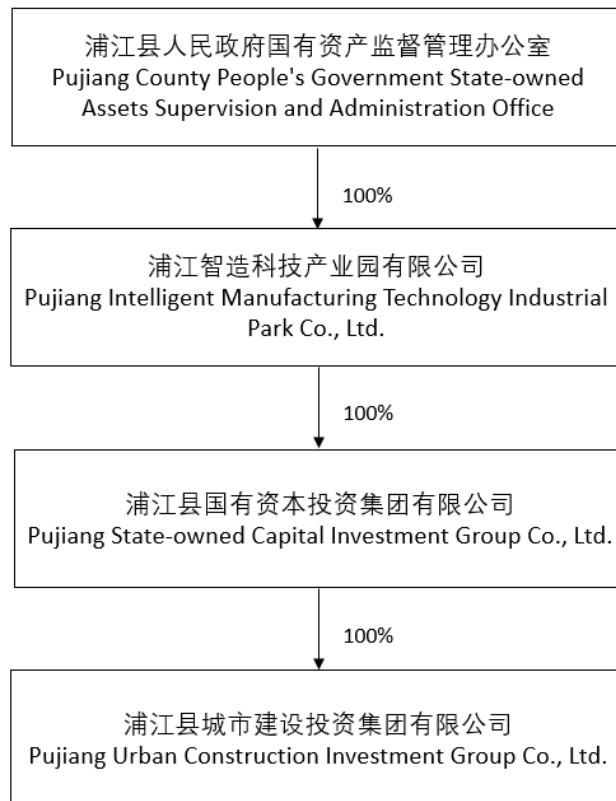


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Shareholding structure as of the end of 2023



Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that Pujiang County Government has a strong capacity to provide support as reflected by Pujiang County's geographic advantage, with ongoing economic growth. However, the capacity to provide support is constrained by its relatively weak fiscal profile.

Located in the central part of Zhejiang Province, Jinhua City is a well-known economically developed city in the province. After years of development, Jinhua City has formed traditional industries such as metal products, pharmaceutical manufacturing, electrical machinery and equipment manufacturing, textiles and clothing, and automobile manufacturing. In recent years, in addition to traditional industries, Jinhua City has started to promote industrial transformation and put great effort into the development of a network economy, smart logistics, film and television culture. In 2022, its gross regional product ("GRP") was recorded as RMB556.2 billion with a GRP growth rate of 2.5% year-on-year ("YoY"), compared with RMB535.5 billion in 2021. In the first three quarters of 2023, Jinhua's GRP was RMB419.9 billion, with a YoY increase of 4.3%. Jinhua Municipal Government's general budgetary revenue showed a slight decline from RMB49.2 billion in 2021 to RMB48.9 billion in 2022, mainly due to the tax refund policy. Its fiscal balance is at a moderate level, with an average general budgetary revenue to general budgetary expenditure ratio of 60.4% over the past three years. It has good fiscal quality, with tax income accounting for over 80% of its general budgetary revenue for the past three years. The debt scale of Jinhua Municipal Government continues to grow. In 2022, the outstanding government debt of Jinhua City was RMB137.9 billion, an increase of 18.2% from 2021.

Exhibit 4. Key Economic and Fiscal Indicators of Jinhua City

	2020FY	2021FY	2022FY
GRP (RMB billion)	470.4	535.5	556.2
GRP Growth (%)	2.8	9.8	2.5
General Budgetary Revenue (RMB billion)	42.3	49.2	48.9
General Budgetary Expenditure (RMB billion)	70.3	79.1	83.0
Local Government Debt (RMB billion)	100.2	116.7	137.9

Source: Statistics Bureau of Jinhua City, CCXAP research

Pujiang County is located in the central part of Zhejiang Province and north of Jinhua City. As a county-level city under Jinhua City, it is close to Yiwu International Trade City, Yiwu Airport and Shanghai-Kunming Expressway, with convenient transportation. In recent years, Pujiang County has developed several advantageous industries including clothing, knitting, crystal, lock-making, and quilting. However, the economic indicators of Pujiang County are at a lower level among the all districts and counties in Jinhua City. In 2022, its GRP was recorded as RMB27.5 billion with a GRP growth rate of 2.6% YoY. In the first three quarters of 2023, Pujiang's GRP was RMB20.1 billion, with a YoY increase of 6.8%. Pujiang County achieved a positive growth of Government fund income (29.6%) as a result of the utilization of the state-owned assets in 2022. At the same time, the general budgetary revenue of Pujiang County was RMB2.4 billion. Tax income accounted for around 80% of the general budgetary revenue for the past three years, indicating the good fiscal stability of Pujiang County. Meanwhile, Pujiang County's fiscal balance is moderate as general budgetary revenue/general budgetary expenditure was around 45.0% in 2022. Pujiang County also relies heavily on the land market, as evidenced by the relatively larger scale of government fund income. As of the end of 2022, its outstanding government debt accounted for 42.2% of GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Pujiang County

	2020FY	2021FY	2022FY
GRP (RMB billion)	23.4	26.2	27.5
GRP Growth (%)	1.2	8.1	2.6
General Budgetary Revenue (RMB billion)	2.0	2.4	2.4
General Budgetary Expenditure (RMB billion)	4.0	6.2	5.4
Local Government Debt (RMB billion)	7.8	11.2	11.6

Source: Statistics Bureau of Pujiang County, CCXAP research

Government Willingness to Provide Support**Strong market position in the development of Pujiang County**

PUCI is a wholly-owned subsidiary of PSCI, the largest LIIFC by total assets in Pujiang County, which is designated to carry out the Pujiang County Government's blueprint for municipal development in Pujiang County. The Company accounted for more than 50% of PSCI's total assets and more than 70% of its net assets as of 30 June 2023, indicating its regional importance. Since its establishment, PUCI has established itself as a leading infrastructure investment and state-owned asset management company and is authorized to undertake construction projects including road, as well as school and environmental projects in Pujiang County.

The Company mainly adopts an agency construction model to conduct infrastructure construction. Under the agency construction model, the Company signs an agency construction agreement with entrusting parties (normally local state-owned enterprises), which will settle with the Company based on the project investment amount plus 10-15% markup upon completion of construction. Meanwhile, the funds for the infrastructure construction projects are paid by the Company. From 2020 to 2023H1, the total investment of this segment was about RMB1.0 billion. However, the revenue from this segment has not been recognized yet, which brings certain liquidity pressure to the Company. As of 30 June 2023, the Company's projects under construction had a total planned investment amount of RMB960.3 million and the uninvested amount was RMB939.6 million.

The Company also engages in the resettlement housing development business. The Company uses its self-raised funds to build resettlement housing by the plan of the local government. After these projects are completed, they will be sold to specific groups of people at prices specified by the government. As of 30 June 2023, the Company's resettlement housing projects under construction had a total planned investment amount of RMB2.9 billion and the uninvested amount was RMB1.5 billion.

In addition to infrastructure and resettlement housing projects construction, the Company also engages in the water supply business. Currently, it is the sole water supplier in Pujiang County and has expanded its business to Yiwu City, implying its strong competitiveness in the region. As of 30 June 2023, the Company operated two water plants, with a total daily supply capacity of around 210,000 tons. Due to the public welfare nature of this business, water fee standards are set by the Pujiang County Government. In recent years, this business has continued to suffer losses.

Overall, the sustainability of the Company's infrastructure and resettlement housing development is relatively strong, but there will be certain capital expenditure pressure in the future. The Company plays a strategic role in regional economic and social development by undertaking infrastructure construction projects and providing public utility services. We believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Low but increasing exposure to commercial activities

PUCI's commercial businesses mainly include engineering construction, commercial property development, area development, and commodity sales businesses. We consider the Company's exposure to commercial businesses to be low, as its commercial assets accounted for around 15% of its total assets. However, the large amount of area development projects under planning has exerted high capital expenditure pressure to the Company. We also expect that the Company's commercial exposure may increase with the completion of these projects.

The Company's engineering construction business is conducted via two models, public bidding and direct entrust. The projects via public bidding are mainly road build-up and maintenance while the projects obtained via direct entrust are mainly municipal projects, land consolidation, as well as road construction. In recent years, revenue from this segment has seen robust growth and became the largest contributor to the Company's revenue in 2022. In 2022, revenue from the construction business grew by 136.0% YoY to RMB233.8 million due to the increasing number of contracts obtained. The Company's number of contracts on hand is sufficient and the business sustainability is relatively good. In the first half of 2023, the Company obtained 105 new contracts with a total contract value of RMB23.3 million.

The area development business is also one of the Company's market-driven business. Under this segment, the Company is in charge of consolidating the land and building self-operated projects, such as the Jinta area development project and the Industrial Science and Technology Innovation Park Project. Currently, the Company has 5 projects under planning with a total planned investment of RMB21.0 billion. The development and settlement mode of the area development projects have not yet been determined, we believe that the Company's capital expenditure is under pressure, and the subsequent capital balance needs to be monitored.

The Company engages in commercial property development. As of 30 June 2023, there is no completed project, so no revenue has been realized yet. As of the same date, the Company had 14 projects under construction and RMB2.5 billion has been invested. Due to the uncertainties of the real estate market, the Company's commercial property sales may face certain challenges.

The Company is also involved in the commodity sales business, which covers sand and gravel, as well as water installation materials. The sand and gravel for trading comes from the Company's construction projects, which are directly sold to individual customers or construction enterprises. The customers normally pay certain advances to the Company, which reduces the credit risk of this segment. Meanwhile, it is worth noting that due to the rising cost of raw materials, the gross margin of this segment has declined in recent years. The Company's commodity sales business faces certain concentration risks as the top 5 customers accounted for 71.9% of total revenue as of 30 June 2023.

Good track record of receiving ongoing government payments

As an important infrastructure construction entity in Pujiang County, the Company has a proven track record of receiving government support in the form of capital injection, asset transfers, and financial subsidies. From 2020 to 2023H1, the Company received government subsidies of RMB4.7 million, RMB252.3 million, RMB520.3 million, and RMB37.9 million, respectively. In addition, the Pujiang SASAO transferred the equity of Pujiang Water Group Co., Ltd. and Pujiang County Drainage Co., Ltd. to PUCI and injected reservoir assets into the Company, broadening the Company's business scope and enhancing its capital strength. In light of the Company's strong position in Pujiang County, we expect the Company will receive ongoing support from the local government and its parent PSCI over the next 12 to 18 months.

Fast debt growth and moderate asset liquidity

PUCI has increasing debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's total debt increased from RMB3.4 billion at end-2020 to RMB7.3 billion at mid-2023, with a total capitalization ratio of 48.1%. We expect the Company's debt leverage will continue to increase in the future, given its large capital expenditure needs for its construction projects in the pipeline. Meanwhile, the Company's short-term debt repayment pressure is relatively low, as of 30 June 2023, its short-term to total debt ratio was 16.9%, indicating a reasonable short-term debt structure.

The Company's asset liquidity is moderate as there were large amounts of inventories, fixed assets and intangible assets. As of 30 June 2023, the Company's inventories amounted to RMB5.9 billion, accounting for 34.7% of total assets, and mainly consisted of construction costs and land. Fixed assets and intangible assets accounted for 24.1% and 14.2% of its total assets, respectively. We believe these assets to be of low liquidity.

Funds mainly come from domestic banks

The Company's funds are stable but sources are relatively limited. As of 30 June 2023, bank financing accounted for 95.3% of PUCI's total financing. The Company maintains good long-term relationships with several domestic banks, such as Bank of China, Agricultural Bank of China, and China Everbright Bank. As of 30 June 2023, the available credit facilities from banks were RMB4.6 billion. The PUCI's proportion of non-standard financing is low, accounting for merely 4.7% of its total financing. In addition, The Company plans to develop new financing channels by issuing offshore bonds.

Medium contingent risks resulting from external guarantees

PUCI has a medium exposure to contingent liabilities. As of 30 June 2023, the Company's external guarantees amounted to RMB2.9 billion, accounting for 37.1% of its net assets. All the external guarantees are provided to state-owned enterprises in Pujiang County, and with support from the local government, the contingent risk is relatively manageable. However, due to the regional concentration of guaranteed enterprises, the Company may face considerable contingent liability risk when a default event occurs in the region, which could inversely impact its credit quality.

ESG Considerations

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

PUCI bears social risks as it implements public policy initiatives by building public infrastructure in Pujiang County. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

PUCI's governance considerations are also material as the Company is subject to oversight by the Pujiang County Government and has to meet several reporting requirements, 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 \(July 2022\)](#).

Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656