

## Credit Opinion

26 January 2024

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

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## Zhuzhou City Construction Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+** to Zhuzhou City Construction Development Group Co., Ltd., with stable outlook.

### Summary

The BBB<sub>g</sub> long-term credit rating of Zhuzhou City Construction Development Group Co., Ltd. (“ZCDG” or the “Company”) reflects Zhuzhou 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 Zhuzhou Municipal Government’s capacity to provide support reflects Zhuzhou City’s economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic importance to infrastructure construction and land consolidation of Zhuzhou City; (2) essential role in providing public services in Zhuzhou City; (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) increasing debt burden and high debt leverage; and (2) moderate asset liquidity.

The stable outlook on ZCDG’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 the development of Zhuzhou City.

## Rating Drivers

- Strategic importance to infrastructure construction and land consolidation of Zhuzhou City
- Essential role in providing public services in Zhuzhou City
- Low exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden and high debt leverage
- Moderate access to funding

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improvement in debt leverage or assets quality.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	128.5	131.7	137.9	143.8
Total Equity (RMB billion)	48.9	47.8	47.6	47.4
Total Revenue (RMB billion)	6.0	7.0	6.2	4.2
Total Debt/Total Capital (%)	57.2	58.6	60.7	61.8

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2003, ZCDG is the most important local infrastructure investment and financing company as well as the largest state-owned operation platform in Zhuzhou City by asset size. The Company is mainly responsible for infrastructure construction and land consolidation in the region. It also provides key public utility services in Zhuzhou City including natural gas, water supply, sewage treatment, and public transportation. In addition, the Company is also engaged in commercial activities such as engineering construction, property development, and trading businesses.

As of 31 December 2023, ZCDG was 90% owned by Zhuzhou City Development Group Co., Ltd., with Hunan State-Owned Investment and Operation Co., Ltd. holding the remaining 10%. Its ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of Zhuzhou Municipal Government ("Zhuzhou SASAC").

Exhibit 1. Revenue Structure in 2022

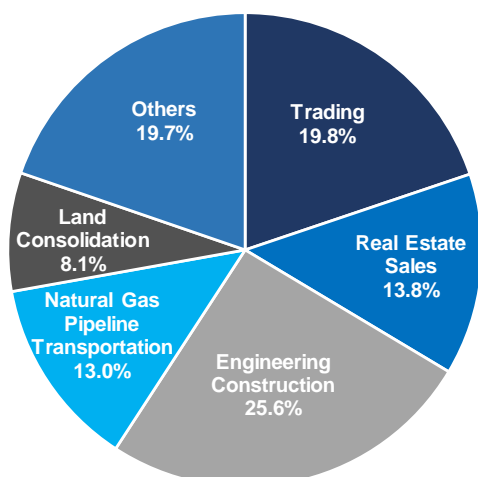
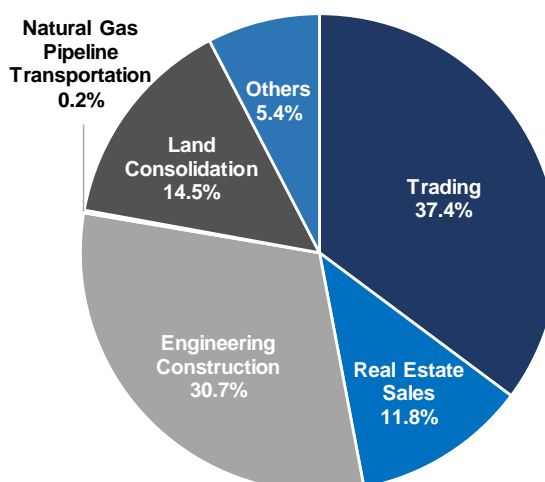
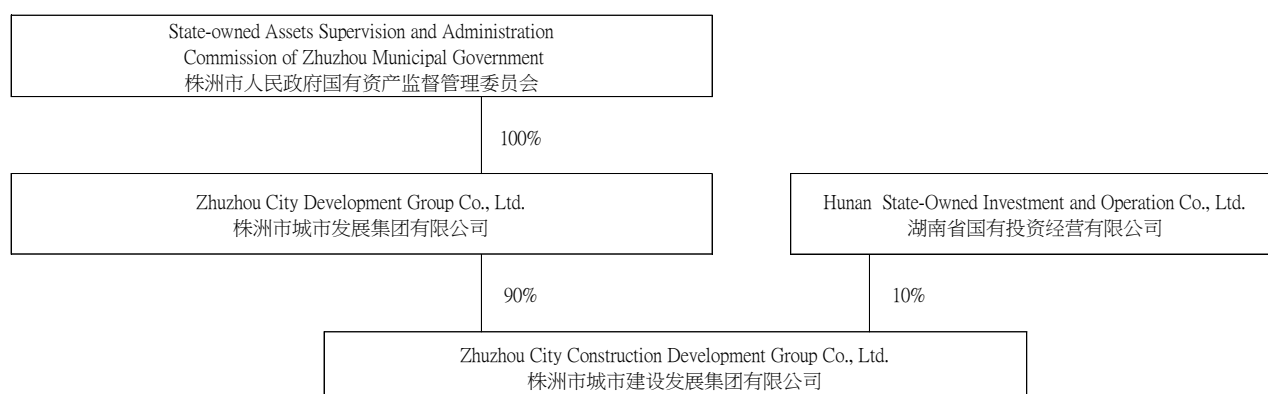


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Exhibit 3 Shareholder structure as of 31 December 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe Zhuzhou Municipal Government has a strong capacity to provide support given Zhuzhou City's economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2022, the gross regional product ("GRP") of Hunan Province was RMB4.9 trillion, ranking 9<sup>th</sup> among all provinces in China. Affected by the COVID-19 pandemic and tax

refund factors, its general public budget revenue decreased to RMB310.2 billion in 2022 from RMB325.1 billion in 2021, with tax revenue accounting for 64.6% of its general public budget revenue. In the first half year of 2023, the GRP of Hunan Province was RMB2.4 trillion, with a YoY growth rate of 3.6%. At the same time, general public budget revenue of Hunan Province achieved RMB176.8 billion, with a YoY growth rate of 11.2%.

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, ranking 5<sup>th</sup> by GRP among 14 prefecture-level cities in Hunan Province. The GRP of Zhuzhou City in the first three quarters of 2023 was RMB280.7 billion, with a YoY increase of 4.9%. 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

### Government’s Willingness to Provide Support

#### Strategic importance to infrastructure construction and land consolidation of Zhuzhou City

There are three major municipal-level state-owned entities in Zhuzhou City, each with clear positioning in the regional development. As the largest state-owned asset operation platform in Zhuzhou City, ZCDG plays a significant role in implementing the Zhuzhou Municipal Government’s urban infrastructure construction and land consolidation policies and plans. As a primary government-authorized infrastructure constructor in Zhuzhou City, the Company has undertaken a wide variety of public policy projects within Zhuzhou City, including the construction of important roads and bridges in Zhuzhou City. Given its strong regional importance in Zhuzhou City, we believe the Company will not be replaced by other state-owned enterprises in the foreseeable future.

The Company is authorized to undertake urban infrastructure construction projects including roads, bridges, schools, and other public facilities. The Company conducts infrastructure construction projects under various models, mainly including agency construction model, and PPP model. For agency construction model, the Company signed the entrustment agreement with the corresponding party and received the construction cost plus certain portion for project payment. As for the PPP model, the Company signed a PPP project contract with the local government, and jointly established a PPP project company to conduct the projects. As of 30 September 2023, the Company had 4 infrastructure construction projects under construction, with total estimated investment of RMB11.0 billion and uninvested amount of around RMB2.8 billion.

The Company has been authorized to undertake the land consolidation projects in Zhuzhou City by the local government. The Company carried out primary land development projects through itself and its subsidiaries. The Company primarily adopts agency construction model for land consolidation projects, receives certain percentages of markup as service fee after the land sold in the public market. As of 30 September 2023, the Company has 4 land consolidation projects under construction, covering more than 1,500 mu, with uninvest amount of about RMB1.8 billion, indicating high capital expenditure pressure. In addition, this business is susceptible to local land market and policies.

The Company also participates in water supply business primarily through its indirect wholly-owned subsidiary, involving tap water supply and sewage treatment services. As the sole water supplier in Zhuzhou City, the Company provides tap water to over 360 thousand residents in an area of approximately 1,946 square kilometers in Zhuzhou City via 5 water supply plants. The Company mainly provides residential water as well as commercial and industrial water. Besides, the Company is also an important sewage treatment services provider in Zhuzhou City, carrying out the treatment and disposal of the domestic and industrial wastewater in the region via 5 sewage treatment plants. The Zhuzhou Government charges sewage treatment fees from different end-users according to their water usage volume and the water tariffs. The Zhuzhou government would then reimburse the sewage treatment fees collected to the Company. The water supply and sewage treatment services have provided stable income and cash flow to the Company.

The Company conducts its natural gas business segment primarily through its subsidiary Zhuzhou Xinao Gas Development Co., Ltd. ("Zhuzhou Xinao"). Zhuzhou Xinao is the sole piped natural gas distributors in Zhuzhou City, offering the most extensive package of gas supply services to about 39,689 households in Zhuzhou City. It is also one of the most prominent gas suppliers in Hunan Province. As of 30 September 2023, it has provided gas supply of over 226 million cubic meters. As the number of users expands, the Company's gas supply income has grown steadily in recent years. However, the profit margin of this business is highly susceptible to the fluctuation of natural gas prices.

The Company is also engaged in bus operations business via its subsidiary. It provides public bus services within the urban and suburban areas of Zhuzhou City, with transportation network over 1,500 kilometers. In addition, due to its public welfare nature, the local government has provided financial subsidies to support the business operations.

### **Low exposure to commercial activities**

Apart from the public policy activities, ZCDG also participates in commercial activities such as engineering construction, property development, and trading businesses. At present, the Company's exposure to commercial businesses is low, accounting for less than 10% of its total assets.

The Company participates engineering construction business through its subsidiary Hunan Guoxin Construction Group Co., Ltd. ("Guoxin Construction"), which has level one qualification for national municipal public works construction general contractor. Guoxin Construction conducts the construction of public infrastructure, urban development and other public works such as river improvement and landscaping through bidding in the public market. As of 30 September 2023, it had contract at hand with total value of RMB5.8 billion, which can ensure its business sustainability. This business is the largest income contributor of the Company, accounting for 25.6% of its total revenue in 2022.

The Company also involved in property development, comprising real estate development and the construction and management of ancillary facilities. The sale collection from the completed projects is good, but the property

sale in 2022 significantly decreased due to the downturn of property market. As of 30 September 2023, the Company had 2 projects under construction, with total planned investment of RMB2.2 billion and uninvested amount of RMB0.9 billion. The property development is susceptible to local property market, which has slowed down in recent years.

The Company has been engaged in trading business through its subsidiaries. In April 2020, the Company has acquired 33% of the shares of Zhuzhou Jiufang Equipment Co., Ltd. (“Jiufang Equipment”) and has become the largest shareholder of Jiufang Equipment. The trading products mainly include oil, wheels, axles and frame components. Jiufang Equipment’s customer is mainly CRRC Zhuzhou Electric Locomotive Co., Ltd. This business provides supplementary income to the Company. In 2022, the revenue from trading business accounted for 19.8% of total revenue.

### **Good track record of receiving government support**

As the largest infrastructure construction entity in Zhuzhou City, ZCDG has a proven track record of receiving government support in the form of capital injection, asset transfers, the infrastructure projects payments, and financial subsidies. From 2020 to 2023Q3, the local government has injected capitals of about RMB2.5 billion to the Company, including cash, assets, and equity interests of state-owned enterprises, such as land assets and pipe networks, significantly increasing its capital strength. During the same period, the local government has provided government subsidies of RMB3.2 billion to the Company to support its operations. In addition, the local government has regularly made project payments to the Company in accordance with the agency agreements. Given its strategic position in the development of Zhuzhou City, we believe that the Zhuzhou Municipal Government will continue to provide support to the Company.

### **Increasing debt burden and high debt leverage**

ZCDG’s debt burden has increasingly grown over the past three years, due to the ongoing financing for the construction projects. The Company’s total debt (including perpetuals) had increased from RMB64.4 billion at end-2020 to RMB76.8 billion at end-2023Q3, and its total capitalization ratio was at a high level of around 61.8%. However, the Company has a relatively high short-term debt repayment pressure. As of 30 September 2023, the short-term debt accounted for about 39.9% of total debt, and its cash to short-term debt ratio was 0.2x. Given its large capital expenditure pressure, we expect the Company’s debt burden will continue to grow in the next 12 to 18 months.

### **Moderate asset liquidity**

ZCDG has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company’s total asset mainly consisted of inventories and receivables, accounting for 71.2% of its total asset. Inventories are mainly lands and investment costs for land development and infrastructure construction projects, while receivables are unreceived payments from the Zhuzhou Municipal Finance Bureau and other local state-owned enterprises. As of 30 September 2023, the Company had pledged assets of RMB15 billion for loans, accounting for 10.4% of total assets. Nevertheless, the Company has a certain amount of monetary funds for daily operations and debt repayment. The Company also has franchise in the public utility services such as natural gas, water supply, sewage treatment, and public transportation, which can provide stable income to the Company. In addition, the Company is exposed to a low contingent liabilities risk. As of 30 September 2023, the Company recorded an external guarantee amount of RMB1 billion, accounting for 2.1% of its total equity.

### **Moderate access to funding**

ZCDG's access to funding mainly from banks and bond markets. The Company has approved line of credit from diversified banks, including policy banks and state-owned commercial banks. As of 30 September 2023, it had obtained total credit facilities of RMB92.8 billion, with unutilized amount of RMB40.5 billion, indicating sufficient standby liquidity. The Company also has access to debt capital markets. From 2020 to 2023, the Company raised RMB39.2 billion through the onshore debt market, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. In 2022, the Company also raised USD400 million through the offshore debt market. Nevertheless, there is the room for improvement in its funding cost and to lower its proportion of non-standard financing. As of 30 September 2023, its average rate was around 5% and non-standard financing accounted for around 10% of total debt.

## ESG Considerations

ZCDG assumes environmental risks through its infrastructure construction projects as well as sewage treatment and gas provision. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, ZCDG has played a crucial role in the social welfare of Zhuzhou City by involving the public utility services such as water provision and public transportation in Zhuzhou City.

In terms of corporate governance, ZCDG's governance considerations are also material as the Company is subject to local government oversight and 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 \(July 2022\)](#).

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