

Credit Opinion

15 March 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

Simon Chen +852-2860 7138

Credit Analyst

simon_chen@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

Zhoushan Putuo Urban Investment Development and Construction Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zhoushan Putuo Urban Investment Development and Construction Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Zhoushan Putuo Urban Investment Development and Construction Co., Ltd. ("Putuo Construction" or the "Company") reflects Putuo District Government's strong capacity to support and very high willingness to support, based on our assessment of the Company's characteristics.

Our assessment of Putuo District Government's capacity to provide support reflects the fact that Zhoushan Putuo District is rich in seafood, port and tourism resources, but constrained by its small economic scale and modest fiscal profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important position in the construction of infrastructure projects in Putuo District, especially in Lujiaoshi Island and Donggang New Area; and (2) strong support from the local government and its parent company.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) relatively high short-term debt repayment pressure and high reliance on non-standard financing; and (3) medium contingent liability risk from external guarantee.

The stable outlook on Putuo Construction's rating reflects our expectation that the Putuo District Government's capacity to provide support will be stable, and that the Company will maintain its important role in infrastructure construction in Putuo District over the next 12 to 18 months.

Rating Drivers

- Important position in the construction of local infrastructure and resettlement housing projects in Putuo District
- Medium exposure to commercial activities
- Strong support from the local government and its parent company
- Moderate asset liquidity
- Relatively high short-term debt repayment pressure and high reliance on non-standard financing
- Medium contingent liability risk from external guarantee

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Putuo District 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 provide support, such as decreased exposure to commercial activities and expanded financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) Putuo District 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 provide support, such as reduced strategic significance or decreased government payment.

Key Indicators

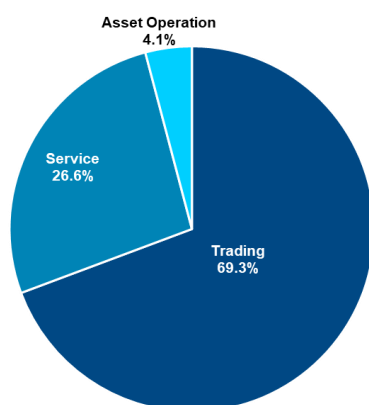
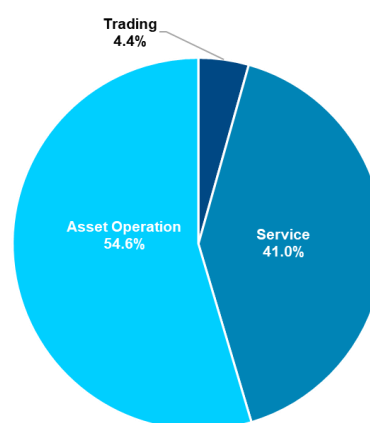
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	6.1	6.7	11.3	15.0
Total Equity (RMB billion)	4.3	4.5	6.1	7.7
Total Revenue (RMB billion)	0.4	0.7	0.7	1.5
Total Debt/Total Capital (%)	5.1	11.5	41.2	47.0

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

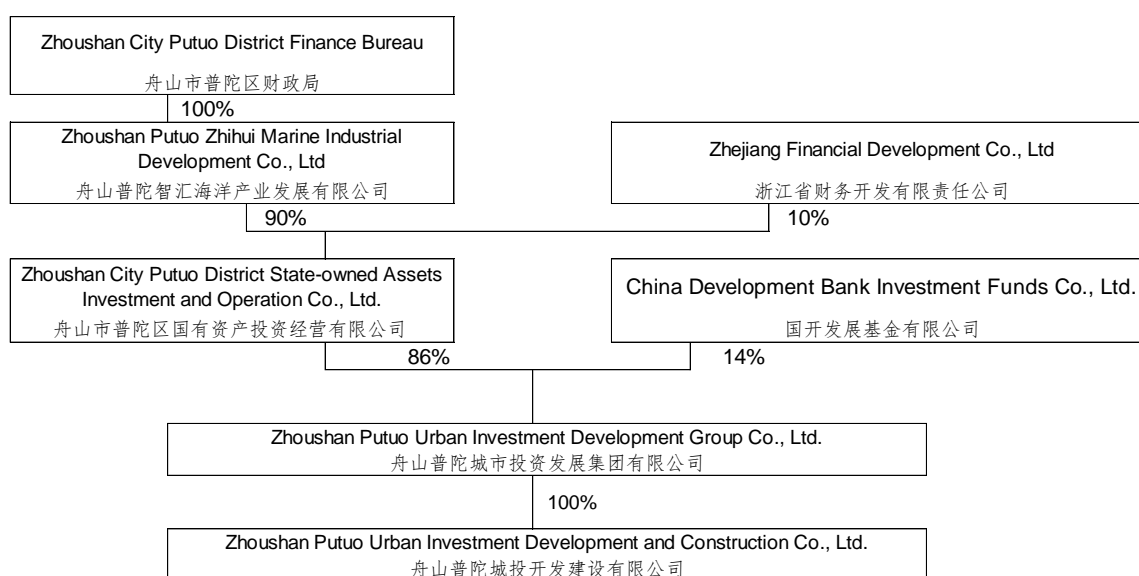
Source: Company Data, CCXAP research

Corporate Profile

Formerly known as Zhoushan Bangsheng Trading Co., Ltd., the Company was founded by Zhoushan City Putuo Gangfu Development Construction Co., Ltd. ("Putuo Gangfu") with an initial registered capital of RMB25 million in August 2008. In January 2022, Putuo Gangfu transferred 100% of the Company's equity shares to Zhoushan Putuo Urban Investment Development Group Co., Ltd. ("PUIG"). The Company is mainly responsible for the infrastructure construction and resettlement housing projects in Lujiashi Island and Donggang New Area in Putuo District. It is also involved in trading, asset leasing and security services businesses. As of 30 September 2023, the Company was wholly owned by PUIG and ultimately controlled by the Finance Bureau of Putuo District, Zhoushan City.

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 September 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government of Putuo District has a strong capacity to provide support for the Company, given its excellent geographical location and abundant marine resources, but constrained by its small economic scale and modest fiscal profile.

Located at the intersection of the golden coastline in eastern China and the golden waterway of the Yangtze River, Zhoushan City is adjacent to Ningbo, Hangzhou, and Shanghai urban city agglomerations. Zhoushan City has a high-quality port, ocean, and tourism resources. Zhoushan Islands New Area is the first national-level archipelago new area. In 2023, Zhoushan Port completed an annual cargo throughput of over 1.3 billion tons, a year-on-year ("YoY") increase of 4.9%. In 2022, Zhoushan City's gross regional product ("GRP") increased by 8.5% YoY to RMB195.1 billion, its GRP growth rate ranked first among all prefecture-level cities in Zhejiang

Province. In 2023, Zhoushan's GRP was RMB210.1 billion, with a YoY increase of 8.2%. Besides, the GRP per capita for Zhoushan City was RMB167,134 in 2022, which is much higher than that of Zhejiang Province. Affected by the pandemic, Zhoushan City Government's general budgetary revenue decreased from RMB18.1 billion in 2021 to RMB15.6 billion in 2022. Its fiscal balance remained at a moderate level, with an average general budgetary revenue to general budgetary expenditure ratio of 51.0% from 2020 to 2022. However, Zhoushan City's debt burden was relatively large with an outstanding debt of RMB59.9 billion at end-2022, accounting for 30.7% of its GRP and 126.1% of its total fiscal revenue.

Exhibit 4. Key economic and fiscal indicators of Zhoushan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	151.2	170.4	195.1
GRP Growth (%)	12.0	8.4	8.5
General Budgetary Revenue (RMB billion)	15.9	18.1	15.6
General Budgetary Expenditure (RMB billion)	31.3	33.6	35.4
Local Government Debt (RMB billion)	50.1	56.2	59.9

Source: Statistics Bureau of Zhoushan City, CCXAP research

As the municipal district of Zhoushan City, Putuo District has an excellent geographical advantage and is in the southeast of Zhoushan Islands. The total area of Putuo District is 6,728.0 square kilometers, of which the sea area is 6,269.4 square kilometers. In addition, Putuo District has superior seafood resources, port resources and tourism resources. Due to the rich aquatic resources and superior geographical location in the jurisdiction, the aquatic product processing industry, tourism industry and shipbuilding industry have become the dominant industries in Putuo District. In 2022, the GRP of the Putuo District was RMB41.0 billion, representing around 21.0% of Zhoushan City's GRP. Besides, the GRP per capita for Putuo District was RMB106,271 in 2022, which is higher than the national level. Due to the tax refund policy, Putuo District Government's general budgetary revenue decreased from RMB3.4 billion in 2021 to RMB3.2 billion in 2022. Putuo District has a moderate fiscal balance and debt profile, with general budgetary revenue to the general budgetary expenditure of 47.1%, a tax income to general budgetary revenue of 77.2% and a government debt to total fiscal revenue ratio of 111.3% as of 31 December 2022. Driven by economic recovery, Putuo's GRP increased by 6.3% YoY in 2023. At the same time, the general public budget revenue of Putuo District achieved RMB3.7 billion, with a YoY growth rate of 1.2%.

Exhibit 5. Key economic and fiscal indicators of Putuo District

	2020FY	2021FY	2022FY
GRP (RMB billion)	44.0	44.5	41.0
GRP Growth (%)	1.3	2.5	4.0
General Budgetary Revenue (RMB billion)	3.0	3.4	3.2
General Budgetary Expenditure (RMB billion)	6.1	6.2	6.8
Local Government Debt (RMB billion)	8.6	8.9	9.1

Source: Statistics Bureau of Putuo District, CCXAP research

Government's Willingness to Provide Support

Important position in the construction of infrastructure and resettlement housing project in Putuo District

There are three major local infrastructure investment and financing companies (“LIIFCs”) in Putuo District, including Zhoushan Putuo Transportation and Tourism Group Co., Ltd., Donggang Investment Development Group Co., Ltd. (“Donggang Investment”), and PUIG. Each LIIFC has a clear positioning under the government plan to support local economic and industrial development.

As the most important core subsidiary of PUIG, the Company is mainly responsible for infrastructure construction, land development and sales of resettlement housing in Lujiazhi Island of Putuo District. Since the Company's shareholding was merged into PUIG in 2022, the Company is committed to implementing the development blueprint of the Putuo District Government to make great contributions to infrastructure construction projects and provide public facilities, improving the quality of urban life with a better living environment as well as accelerate regional economic growth. In addition to Lujiazhi Island, the Company will also undertake the construction project of Donggang New City. Given the Company's important role in local economic development, we expect Putuo Construction is unlikely to be replaced in the foreseeable future.

The Company continues to carry out infrastructure construction projects by agency construction model. As of 30 September 2023, the Company had 3 completed infrastructure construction projects, with a total investment of RMB199.5 million and repayment of RMB209.5 million. Besides, the Company had 11 projects under planning, with an estimated total investment of RMB1.8 billion. According to the resettlement housing construction plan of the local government, the Company also conducts resettlement housing construction and sales in Putuo District. As of 30 September 2023, the Company had 5 completed resettlement housing projects, with a total investment amount of RMB811.5 million and repayment of RMB1.4 billion. Besides, the Company had 2 resettlement housing projects under construction, with a total investment of RMB2.1 billion, and an uninvested amount of RMB1.5 billion. The large scale of construction projects ensures the sustainability of the business but exerts great capital expenditure pressure on the Company. In addition, the income from agent construction and sales of resettlement houses is subject to government policies, sales, and settlement progress. The Company has not achieved revenue from agency construction and sales of resettlement housing in 2022.

Medium exposure to commercial activities

Putuo Construction's commercial businesses mainly include trading, security services and asset leasing businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 30% of its total assets.

The Company is engaged in commodity trading business including two sub-segments, building materials trading business represented by steel and stone, and bulk commodity trading business represented by refined oil and asphalt. The trading business is the Company's largest source of revenue, accounting for 69.4% of its total revenue as of the end of 2022, but recording a low gross profit margin of 0.5%. In addition, the Company's bulk commodity trading sector needs to advance funds, and the billing period generally does not exceed 60 days. The Company's asphalt trading business has a high reliance on its top 5 customers and suppliers, with the top one supplier accounting for 90% of total purchases and the top two customers accounting for 40% of total sales, which may increase uncertainties in this business.

The Company also conducts security business, financial leasing business, parking business and asset leasing business. Putuo Construction provides security services for government departments, enterprises and institutions in Putuo District. The Company's financial leasing business currently has two transactions, and the funds are mainly invested in Zhoushan Liheng Development and Construction Investment Co., Ltd. and Zhoushan Aquatic Products Center Wholesale Market Co., Ltd., both of which are state-owned enterprises. The Company is authorized by the local government to charge and manage the state-owned commercial

underground garage and ground parking lot in Putuo District. The parking area covers a total of 61,375 square meters and there are 1,639 parking spaces. In addition, the Company is also involved in the leasing business, including the leasing of Donggang Neighborhood Center, with an almost full occupancy rate. The customers of the leasing business have a high degree of dispersion. These businesses provide certain supplementary business for the Company's revenue, accounting for 30.7% of its total revenue as of the end of 2022.

Strong support from the local government and its parent company

Putuo Construction has a proven track record of receiving support from both the local government and parent company in the form of capital injection, asset transfers and financial subsidies. In terms of equity injection, in 2021, the Company received 100% of the equity transfer of several companies held by PUIG, with the approval of Zhoushan Putuo State-owned Assets Management Office. In terms of asset injection, PUIG has injected management rights of Donggang Business Center, Talent Apartments and parking spaces in Putuo District to the Company. From 2020 to 2022, the Company received government subsidies of approximately RMB75.5 million. We expect the local government and Putuo Construction's parent company will continue to provide ongoing support to the Company, given Putuo Construction's important role in the investment and construction of the Putuo District.

Relatively high short-term debt repayment pressure and moderate asset liquidity

Due to the merger of subsidiaries and expansion of construction projects, Putuo Construction's debt burden is increasing. Its total debt has increased from RMB232.7 million at end-2020 to RMB6.8 billion at 2023Q3, with a total capitalization ratio of 47.0% as of 30 September 2023. The Company's debt structure has improved, and the short-term debt to total debt ratio improved from 69.0% at end-2020 to 26.0% at 2023Q3. In addition, the Company is exposed to certain short-term debt repayment pressure, with a cash/short-term debt ratio of 0.4x as of 30 September 2023.

As of 30 September 2023, the Company has inventories and accounts receivables of RMB9.1 billion, accounting for around 60.9% of its total assets. Inventories are mainly investment costs for construction projects. Receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit-negative.

High reliance on non-standard financing

Putuo Construction has access to funding mainly from bank loans and non-standard financing. As of 30 September 2023, the Company has obtained a total of RMB5.5 billion in bank credit facilities, with an available credit of RMB10.0 million, indicating an insufficient liquidity buffer. Besides, PUIG had bank credit facilities of RMB12.5 billion and available credit facilities of RMB5.3 billion as of 30 June 2023, indicating sufficient liquidity support for the Company. Considering the Company's important status and key role in the local development of Putuo District, we expect the Company to maintain access to stable funding from banks. However, the Company also had a relatively high reliance on non-standard financing, accounting for 57.5% of its total debt as of 30 September 2023. The cost of its non-standard debt is controlled at around 6.8%. Non-standard financing is less stable than bank financing, and the Company faces higher financing costs and greater refinancing pressure. The Company issued a CNY bond in the offshore bond market in 2023, with a coupon rate of 4.95%. We believe that with the expansion of financing channels, the Company's debt structure will be improved.

Medium contingent liability risk from external guarantee

As of 30 September 2023, the total amount of external guarantees of the Company was RMB2.1 billion, representing 27.4% of its net assets. All these external guarantees were provided to local state-owned enterprises in Putuo District. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. However, as most of the guarantees are provided to local state-owned entities, which are likely to be supported by the local government, when necessary, we believe the contingent risk would be controllable.

ESG Considerations

Putuo Construction assumes environmental risks through its infrastructure construction projects. 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, Putuo Construction has played a crucial role in the social welfare of Putuo District by involving the construction of infrastructure construction, schools and resettlement housing building projects.

In terms of corporate governance, Putuo Construction'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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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