

## Credit Opinion

26 April 2024

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

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## Zhengzhou Road & Bridge Construction Investment Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+** to Zhengzhou Road & Bridge Construction Investment Group Co., Ltd., with stable outlook.

### Summary

The BBB<sub>g</sub> long-term credit rating of Zhengzhou Road & Bridge Construction Investment Group Co., Ltd (“ZZRB” or the “Company”) reflects (1) Zhengzhou Municipal Government’s excellent capacity to provide support, and (2) the local government’s high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Zhengzhou Municipal Government’s capacity to provide support reflects Zhengzhou City’s very strong economic strength with ongoing economic growth and good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong position in transportation infrastructure construction of Zhengzhou City; and (2) track record of receiving government supports.

However, the rating is constrained by (1) the Company’s high debt leverage with relatively large short-term debt burden; (2) the government’s reimbursement of its construction projects is prolonged; and (3) moderate asset liquidity.

The stable outlook on ZZRB’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its important role in transportation infrastructure construction of Zhengzhou City.

## Rating Drivers

- Strong position in transportation infrastructure construction of Zhengzhou City
- Government reimbursement of construction project is relatively lagging behind
- Moderate exposure to commercial activities
- Track record of receiving government supports
- High debt leverage with relatively large short-term debt burden
- 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; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improvement in debt leverage or assets quality; or increasing in importance of business position.

### 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 provide support, such as reducing in its strategic significance and government payments; reducing in refinancing capacity; or increasing in liquidity risk.

## Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	22.2	22.4	20.7
Total Equity (RMB billion)	4.6	3.7	3.7
Total Revenue (RMB billion)	1.7	2.1	3.0
Total Debt/Total Capital (%)	80.4	81.1	76.1

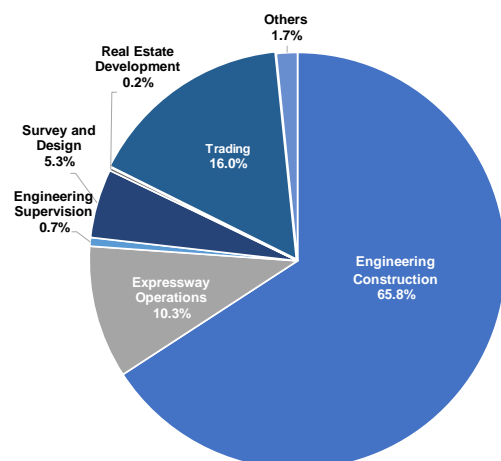
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Established in 2003, ZZRB is the key transportation infrastructure construction and operation entity in Zhengzhou City. The primary business of the Company is transportation infrastructure construction, including construction of municipal roads, highways and bridges. In addition, the Company also engages in commercial businesses including survey and design, engineering supervision, trading and real estate development. As of 31 December 2023, the Company is wholly owned by Zhengzhou Construction Investment Group Co., Ltd. ("ZCIG") and ultimately controlled by the Zhengzhou Finance Bureau. ZCIG is a key investment and financing platform for infrastructure construction in Zhengzhou City and is designated by the Zhengzhou Municipal government to undertake the urban development projects in Zhengzhou City, such as shantytown renovation and transportation infrastructure construction.

### Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

### Exhibit 2. Shareholding chart as of 31 December 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe that the Zhengzhou Municipal Government has excellent capacity to provide support as reflected by its strong economic strength, with ongoing economic growth and good fiscal self-sufficiency. However, the government's capacity to support is constrained by its debt profile.

Henan Province is a leading economic province and is recognized as one of the most developed provinces in China. It is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's gross

regional product (“GRP”) ranked 6th among all provinces in China in 2023 with a GRP of RMB5.9 trillion and growth rate of 4.1% year-on-year (“YoY”). Meanwhile, its general budgetary revenue increased to RMB451.2 billion, an increase of 6.2% YoY.

Located in the of northern part of Henan Province, Zhengzhou City is the capital and largest city of Henan Province. It serves as the political, economic, technological and educational center of Henan Province. Zhengzhou City has formed six leading industries, including automobile and equipment manufacturing, electronic information, modern food manufacturing, biomedicine, new materials and aluminum processing products. In recent years, Zhengzhou’s economic performance outperforms other cities in Henan Province, as it ranked 1<sup>st</sup> among all prefecture-level cities in Henan Province in terms of GRP and general budgetary revenue over the past three years. In 2023, its GRP recorded RMB1.4 trillion with a GRP growth of 7.4% YoY. Meanwhile, Zhengzhou City reported a general budgetary revenue of RMB116.6 billion, of which tax income accounted for 67.5% of its fiscal revenue, representing a relatively good fiscal quality. In addition, it has good fiscal self-sufficiency, with average general budgetary revenue to general budgetary expenditure ratio of 76.6% over the past three years. In addition, Zhengzhou Municipal Government’s ongoing investments in fixed assets and urban renewal led to high debt ratio and growing debt burden. It has outstanding government debt of RMB335.5 billion at end-2023 compared to RMB250.4 at end-2021, accounting for 24.6% of its GRP and 165.8% of its total fiscal revenue.

### Exhibit 3. Key economic and fiscal indicators of Zhengzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,269.1	1,253.8	1,361.8
GRP Growth (%)	4.7	1.0	7.4
General Budgetary Revenue (RMB billion)	122.4	113.1	116.6
General Budgetary Expenditure (RMB billion)	162.4	145.6	152.0
Local Government Debt (RMB billion)	250.4	293.2	335.5

Source: Statistics Bureau of Zhengzhou City, CCXAP research

### Government Willingness to Provide Support

#### Strong position in transportation infrastructure construction of Zhengzhou City

ZZRB has an important position in transportation infrastructure construction of Zhengzhou City. The Company and its subsidiary, Zhengzhou City Highway Engineering Corporation Ltd. (“ZZHE”), engage in transportation infrastructure construction through engineering construction, with relevant construction qualifications. Since its establishment, the Company has undertaken and completed a series of large-scale transportation infrastructure construction projects in Zhengzhou City, such as roads, bridges and highways within the center districts of Zhengzhou City. As of 30 June 2023, the Company had completed 17 government entrusted construction projects awaiting repayment from the local government, with total contract value of RMB6.8 billion and total investment of RMB5.7 billion. These projects have been completed and entered into the repurchase period, with no subsequent investment plan. However, the repayment schedule has been prolonged. Most of these projects has elapsed the repurchase period, yet the payment has not yet been reimbursed. As of mid-2023, the total estimated reimbursement amount was RMB7.9 billion, with an outstanding amount of RMB2.7 billion.

ZZRB acquires projects through BT model or Public-Private Partnerships (“PPP”) model. Under BT model, the Company signs agreements with the local government, mainly the Zhengzhou Finance Bureau and the Zhengzhou Municipal Transportation Commission, and carries out the construction work. After the project is completed and passed the examination, the local government would repurchase in accordance with the

agreement. Generally, the repurchase period is 5 years, of which repurchasing 20% of the annual investment amount in the first four years, and the 5<sup>th</sup> year final settlement amount will be confirmed by the third-part audit. The return rate of BT project is generally 6%-8% of the investment amount. Under PPP model, the Company, as the controlling shareholder, is responsible for the investment and construction of the project. The Company mainly achieves fund balancing by self-owned funds and project loans. The project owners under PPP model are mainly county-level government units. As of 30 June 2023, the Company had 7 PPP projects under construction, with a total estimated investment of RMB6.8 billion and an uninvested amount of RMB3.8 billion. Meanwhile, the Company had 4 projects under planning with a total estimated investment amount of RMB51.5 billion. The transportation infrastructure construction business is sustainable given the considerable construction projects in the pipeline. It also provides relatively good profit to the Company, with the gross profit margin maintaining at over 15% over the past three years. However, the large-scale investment needs bring certain capital expenditure pressure to the Company.

In addition, ZZRB participates expressway operations business through its subsidiary, Zhengzhou Zhengshao Expressway Development Co., Ltd. ("ZZED"), which is responsible for the operation and management of the only municipal expressway in Zhengzhou City under franchise mode, namely the Zhengzhou-Shaolin Monastery Expressway ("Zhengshao Expressway"). It has a total length of 53.3 kilometers and a toll mileage of 53.3 kilometers. The franchise term is 30 years (from 21 September 2001 to 21 September 2031), which could provide stable income for the Company.

#### **Moderate exposure to commercial activities**

In addition to public activities, ZZRB is also engaged in commercial businesses such as engineering construction, survey and design, engineering supervision as well as trading. We consider the Company's exposure to commercial businesses to be moderate, accounting for more than 30% of its total assets.

ZZRB acquires engineering construction projects through open market bidding. Under bidding model, the Company, as the construction entity, obtains projects by bidding with self-raised funds and recognizing revenue according to the construction progress. As of 30 June 2023, the Company had 14 projects under construction, with a total estimated investment of RMB3.1 billion and an uninvested amount of RMB2.5 billion. As these are the projects expected to be completed in the next few years, it is expected to bring certain revenue to the Company while exerting certain capital expenditure pressure. In addition, the capital recovery cycle of engineering project may be affected by the prolonged project payback period, requiring attention to the subsequent repayment schedule.

ZZRB also engages in survey and design business through its subsidiary, Zhengzhou Transportation Planning Survey, Design and Research Institute Co., Ltd. ("Survey, Design and Research Institute"), which is a Class A survey and design unit approved by the State. The Company conducts projects nationwide through bidding in the market such as the S102 Interchange project of Beijing-Hong Kong-Macao Expressway. In 2023, this segment generated RMB160.7 million revenue to the Company, accounting for 5.4% of the total revenue. In addition, ZZRB takes part in engineering project supervision business through its subsidiary with Class A qualifications. In recent years, the company has completed the supervision service of nearly one hundred domestic motorways, bridges, special bridges, interchange bridges and other key traffic and municipal projects, such as Zheng Yaohua Expressway and Heda Expressway, with the total mileage of supervision projects reaching more than 1,600 kilometers.

ZZRB also involves in trading business through its subsidiaries, including commodity trading as well as stone mining and sales. Trading products mainly include anode carbon and petroleum stone materials. In 2023, the

revenue from trading business accounted for 16.0% of total revenue, representing the second largest income source of the Company. Although this segment can provide ZZRB with additional income, the Company is exposed to relatively high concentration risk as the Company has high reliance on its top 5 customers and suppliers. The top 5 customers and suppliers accounted for approximately 89.8% and 95.2% of the total sales and total procurement in 2022, respectively.

### **Track record of receiving government supports**

ZZRB has received ongoing support from the local government including capital injection, asset transfers, project payments, financial subsidies, and project offerings. For instance, the government transferred the ownership of Zhengshao Expressway to the Company in 2004 and granted the Company the franchise rights of Zhengshao Expressway in 2005. In addition, from 2020 to 2023, the Company received a total of RMB8.4 million in financial subsidies from the local government, supporting its operations. ZZRB also obtained funding support from its parent companies, ZDIG and ZCIG, with a total loan amount of RMB510.0 million as of 31 December 2023. However, the government payments for ZZRB's infrastructure projects are highly subject to the local government's fiscal budget. Given the Company's public policy role in transportation construction, we expect the local government will continue to support the Company in the future.

### **High debt leverage with relatively large short-term debt burden**

ZZRB's total debt continued to increase in the past few years due to ongoing financing needs. The Company's total debt increased from RMB12.9 billion at end-2020 to RMB15.7 billion at end-2022, while its capitalization ratio slightly increased from 76.8% to 81.1% over the same period, maintained at a relatively high level. As of 31 December 2023, the total debt reduced to RMB11.9 billion and its total capitalization ratio slightly reduced to 76.1%, mainly due to repayment of debts such as MTN and perpetual debt. However, the Company has a certain short-term repayment pressure given its relatively high short-term burden. As of 31 December 2023, the Company's short-term debt accounted for 65.0% of its total debt and the cash to short-term debt ratio was 0.2x. Meanwhile, a large portion of cash (77.9%) is pledged for bank loans and deposits, further weakened ZZRB's financial flexibility. Considering the future investment for construction projects, we expect the Company's debt burden will continue to increase in the foreseeable future.

Starting from the second half of 2023, the Company had some overdue on its commercial papers and debt investment plans, with an amount of RMB72.5 million and RMB91.0 million respectively, indicating tight liquidity position. As of 3 April 2024, the Company had fully paid all the overdue obligations.

### **Moderate asset liquidity**

The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 December 2023, the Company's total asset mainly consists of receivables, fixed assets and contract assets, totally accounting for 63.9% of total assets. As of 31 December 2023, the Company's receivables (40.6% of total assets) and contract assets (6.3% of total assets) are mainly unreceived payments due to the construction projects, which are considered having low liquidity. Besides, the Company had pledged assets of RMB2.5 billion for loans, representing 11.9% of total assets as of 31 December 2023.

### **Fair access to funding**

As an important municipal platform in Zhengzhou City, ZZRB has fair access to sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. The Company has certain standby liquidity. The

Company has built long-term borrowing relationships with various domestic banks in China such as China Development Bank and the Bank of China. As of 31 December 2023, it has obtained total credit facilities of RMB13.7 billion, with an available amount of RMB3.9 billion. In addition, ZZRB has a track record of fund-raising activities in the debt capital market. From 2020 to April 2024, the Company raised RMB4.4 billion through the domestic bond market, including various bond types such as corporate bonds, MTNs, SCPs and PPNs. Since 2024, the Company further expanded its funding channels to the offshore debt capital market. In April 2024, the Company issued a tranche of offshore corporate bond to raise RMB43.0 million. Besides, the Company has low reliance on non-standard financing. However, given the stringent regulatory policy on China's local infrastructure investment and financing companies, the Company's refinancing ability may be subject to certain restrictions and lower its flexibility.

## ESG Considerations

ZZRB faces environmental risks through its transportation infrastructure construction projects such as expressway construction. The Company is obligated to comply by national environmental rules and regulations in relation to air pollution, noise emissions, water and waste discharge, and other environmental issues. Failure to comply with these regulations can result in fines, legal penalties, project delays, and reputational damage. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

ZZRB bears social risks as it implements public policy initiatives by building public infrastructure in Zhengzhou City. 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. Such risks could be moderated by actively communication with different stakeholders throughout the project lifecycle.

In terms of corporate governance, ZZRB'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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