

Credit Opinion

9 May 2024

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

Analyst Contacts

Christy Liu +852-2860 7130
Credit Analyst
christy_liu@ccxap.com

Cherry Chau +852-2860 7134
Assistant Credit Analyst
cherry_chau@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

Construction Investment Co., Ltd Henan Province Zhengzhou New District

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Construction Investment Co., Ltd Henan Province Zhengzhou New District, with stable outlook.

Summary

The BBB_g+

Our assessment of Zhengdong New District Government's capacity to provide support reflects Zhengdong New District's comprehensive economic strength, with good economic fundamentals and high fiscal self-sufficiency.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strategic role in the regional development of Zhengdong New District with relatively high business sustainability; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) high exposure to commercial activities with relatively high capital expenditure pressure; and (2) fast debt growth and moderate asset liquidity.

The stable outlook on ZZNDCl's rating reflects our expectation that the Zhengdong New District Government's capacity to support will remain stable, and the Company will maintain its important role in Zhengdong New District over the next 12-18 months.

Rating Drivers

- Strategic role in the regional development of Zhengdong New District
- High exposure to commercial activities
- Good track record of receiving government support
- Fast debt growth and moderate asset liquidity
- Access to diversified funding channels

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 reduced 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 provide support, such as reduced strategic significance and government payments or reduced in refinancing capacity.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	36.6	50.0	52.7	55.5
Total Equity (RMB billion)	11.9	16.0	17.0	17.0
Total Revenue (RMB billion)	2.4	1.4	2.0	3.3
Total Debt/Total Capital (%)	49.0	56.6	62.0	64.9

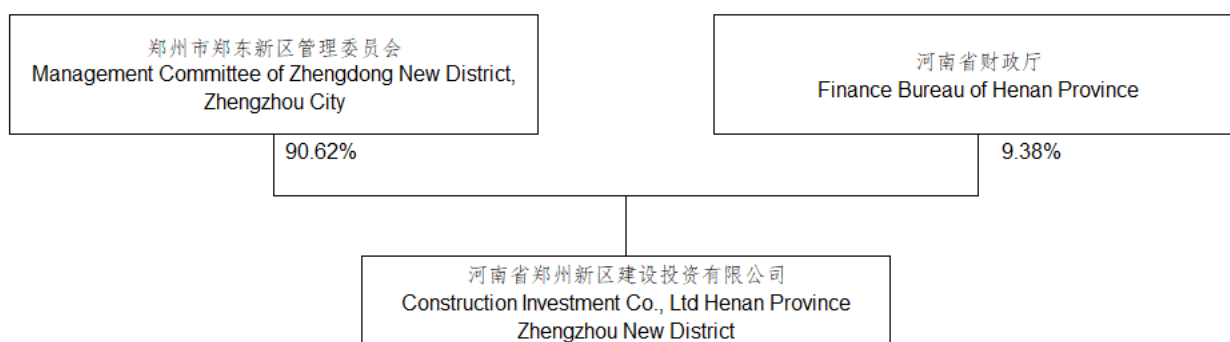
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

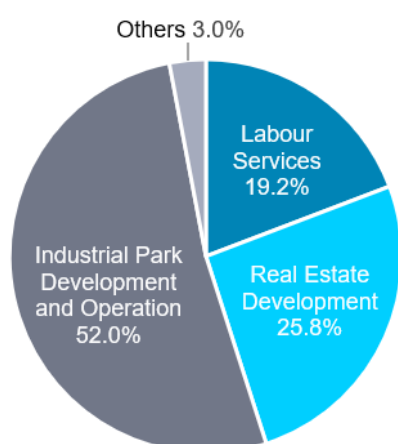
Established in 2002, ZZNDCl is an important infrastructure investment, construction and operation entity in Zhengdong New District with the largest assets scale, focusing on infrastructure construction, resettlement housing as well as municipal and environmental services. In addition, the Company also engages in commercial businesses including industrial park development and operation, property leasing, and real estate development. As of 31 December 2023, the Management Committee of Zhengdong New District held 90.62% of ZZNDCl's shares, while the Finance Bureau of Henan Province held the remaining 9.38% of the Company's shares. The Management Committee of Zhengdong New District is the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 31 December 2023



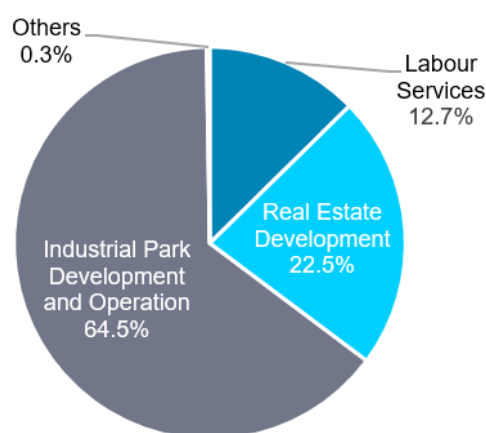
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023



Rating Considerations

Government Capacity to Provide Support

We believe that the Zhengdong New District Government has very strong capacity to provide support as reflected by its comprehensive economic strength, with good economic fundamentals and high fiscal self-sufficiency.

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 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 1st 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 was recorded at 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 an 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 billion at end-2021, accounting for 24.6% of its GRP and 165.8% of its total fiscal revenue.

Exhibit 4. 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

Established in 2003, Zhengdong New District is a new urban area located in the eastern part of Zhengzhou City, covering a jurisdiction area of 260 square kilometers and a planning control area of 3.7 million square kilometers. Zhengdong New District plays a particularly important role in accelerating the industry upgrades of Zhengzhou City by fostering the construction of "three highlands" (national innovation highland, talent highland and open highland), "two centres" (international financial centre and international consumption centre) and "a new city" (modern international new city). Many enterprises have settled in Zhengdong New District including Fortune 500 companies, large domestic enterprises, and licensed financial institutions. The economic performance of the Zhengdong New District continues to improve, providing a good operating environment for the Company. Zhengdong New District has been ranking 2nd among all the districts and counties in Zhengzhou City in terms of GRP and general budgetary revenue over the past three years. According to the preliminary statistics, it achieved a GRP of RMB138.9 billion and a general budgetary revenue of RMB12.7 billion in 2023, with a YoY growth rate of 7.4% and 20.1% respectively. Zhengdong New District is characterized by its good self-sufficiency and fiscal stability. Over the past three years, the tax revenue accounted for around 92.2% of its general budgetary revenue on average and the average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was more than 100%. At the end of 2022, the local government's outstanding debt was RMB10.8 billion, accounting for 8.4% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Zhengdong New District

	2021FY	2022FY	2023FY
GRP (RMB billion)	127.0	128.9	138.9
GRP Growth (%)	4.8	1.0	7.4
General Budgetary Revenue (RMB billion)	12.5	10.6	12.7
General Budgetary Expenditure (RMB billion)	12.1	7.5	11.0
Local Government Debt (RMB billion)	9.4	10.8	-

Source: Management Committee of Zhengdong New District, CCXAP research

Government Willingness to Provide Support

Strategic role in regional development of Zhengdong New District

As an important urban infrastructure investment and operation entity in Zhengdong New District, ZZNDCI has a clear strategic role in regional development, especially in the development of industrial parks and supporting infrastructure within the High-speed Rail Station Area and the Baisha Park Area. The Company is commissioned to carry out various key infrastructure construction projects, such as roads, tunnels, schools, and housing, which are crucial to local economic and industrial development. We believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Entrusted by the government, the Company mainly focuses on the development of major infrastructure construction projects in Zhengdong New District with government funds. The Company constructs infrastructure projects assigned by the Management Committee of Zhengdong New District, who is responsible for the funding of projects and pays the management fees to the Company based on the construction progress, typically 3%-6% of the total investment amount of the project. As of 31 December 2023, the Company had completed a series of construction projects, such as roads and bridges, with a total investment of RMB2.3 billion. The Company also had 17 infrastructure construction projects under construction, with a total investment of RMB9.8 billion and an outstanding amount of RMB5.6 billion. Meanwhile, the Company had 7 projects under planning with a total estimated investment of RMB2.0 billion. However, the settlement progress of the local government was relatively slow, the Company did not realize any revenue for infrastructure construction projects in 2023.

Additionally, the Company is responsible for the development of affordable housing in Zhengdong New District. The Company constructed affordable housing projects under government purchase model and agency construction model. Under government purchase model, the projects are constructed with government fund and self-raised fund, and the local government would settle the payment in instalments in accordance with the agreement and repurchase the projects after completion and examination. Under agency construction model, the Company signs entrusted construction contracts with the local government, and received some government funding and special-purpose bonds for the construction of the projects. As of 31 December 2023, the Company had 6 major affordable housing projects under construction, with a total investment of RMB14.6 billion and an outstanding investment of RMB2.5 billion. Among them, 5 of the projects are under agency construction model and the remaining one is under government purchase model. At the same time, the Company had no resettlement housing project under planning.

Furthermore, the Company provides municipal and environmental services in Zhengdong New District, including municipal maintenance and greening, river maintenance, urban sanitation, lighting as well as resettlement housing management. The Company signed service agreements with the local government to undertake these services, providing supplementary income to the Company. For instance, the Company is responsible for comprehensive sanitation services assigned by the local government, including the collection, transportation and disposal of domestic wastes, road cleaning and sanitation. The average annual revenue of the municipal and environmental services was more than RMB300 million over the past three years.

High exposure to commercial activities

In addition to public activities, ZZNDCI also engages in commercial businesses such as real estate development, industrial park construction and operation as well as property leasing. We consider the Company's exposure to commercial activities to be high as the commercial assets accounted for more than 30% of the total assets as of end-2023. Moreover, the large investment needs in self-operated projects may increase the Company's capital expenditure pressure.

Despite the affordable housing construction, ZZNDCl also participated in real estate development business for the construction of commercial housing, providing supplementary income to the Company. ZZNDCl had one completed residential housing project in the progress of sale, and more than 75% of the housing have been sold as of end-2023. In addition, the Company invested in some real estate projects in cooperation with other state-owned enterprises, with a total invested amount of more than RMB6.0 billion as of 31 December 2023. The Company also had one commercial housing project under construction as of the same date, with a total investment of RMB1.9 billion and an outstanding investment of RMB781.5 million. However, the profits and sales progress of these commercial property projects are highly subject to the changes in the current property market, especially during the downturn of Chinese real estate market, which would exert higher business and financial risks to the Company.

ZZNDCl is also responsible for the investment and construction of self-operated projects in Zhengdong New District, such as industrial parks, to promote local investment attraction and industrial development. The Company would achieve fund balancing through leasing and managing of its industrial parks. Most of the Company's leasable assets were leased out, and the primary lessees are government departments, local state-owned enterprises, and private-owned enterprises related to local pillar industries. As of 31 December 2023, there were 26 key self-operated industrial projects under construction, with a total investment of RMB29.0 billion and an uninvested amount of RMB14.5 billion. The source of funding mainly come from external financing. The relatively large amount of uninvested amount of industrial park construction projects would exert certain capital expenditure pressure to the Company. Moreover, the capital recovery cycle for industrial parks is typically long as the property leasing is highly subject to the economic situation in Zhengzhou City and the progress of investment attraction, which may expose the Company to certain business risks.

Good track record of receiving government support

ZZNDCl has received ongoing support from the local government including capital injection, equity and asset transfers, project payments, and financial subsidies. For instance, the local government transferred 94.62% shares of Zhengzhou National Trunk Road Logistics Port Construction and Development Investment Co., Ltd. to the Company in 2022, enhancing its capital strength. ZZNDCl also continuously received asset injections from the local government, such as roads, bridges, rivers, and water and heating pipelines. Besides, from 2021 to 2023, the Company received operating subsidies from the local government with a total amount of RMB48.3 million, supporting its operations. Given the Company's strategic position in the regional development of Zhengdong New District, we expect ZZNDCl will continue to receive support from the local government in the future.

Fast debt growth and moderate asset liquidity

ZZNDCl's total debt continued to increase in the past few years due to its ongoing investment needs in real estate development and industrial parks construction. As of 31 March 2024, the Company's total debt increased to RMB29.7 billion from RMB11.5 billion as of end-2021, while its capitalization ratio increased to 64.9% from 49.0% over the same period, maintained at a relatively high level. Meanwhile, the Company has certain short-term debt pressure. As of 31 March 2024, the Company's short-term debt accounted for 20.1% of its total debt and the cash to short-term debt ratio was relatively low at 0.4x. Considering the future investment for industrial park construction projects, we expect the Company's debt burden will continue to increase in the foreseeable future.

In addition, the Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 March 2024, the Company's total asset mainly consists of inventories and investment properties, totally

accounting for 71.0% of total assets. Inventories are mainly investment costs for construction projects, while investment properties are rental properties such as office buildings and carparks, all of which are considered to have low liquidity. Besides, the Company had pledged some assets for loans, accounting for around 9.8% of total assets as of 31 March 2024.

Access to diversified funding channels

As an important developer in Zhengdong New District, ZZNDCl has access to different sources of fundings including bank loans, onshore bond issuances, and non-standard financing products, which may partially release its capital expenditure pressure and liquidity profile. ZZNDCl has built long-term borrowing relationships with various domestic banks in China such as Postal Savings Bank of China and the Bank of Zhengzhou. As of 31 March 2024, it has obtained total credit facilities of RMB18.5 billion, with an available amount of RMB6.3 billion. In addition, ZZNDCl has a track record of fund-raising activities in the debt capital market. From 2023 to March 2024, the Company and its subsidiary raised RMB5.5 billion through the domestic bond market, including various bond types such as corporate bonds, private placement notes and MTNs. However, the Company has certain exposure to non-standard financing, such as financial leasing and trust, accounting for around 20%-25% of the total debt. These non-standard financing products generally have higher costs and shorter maturity, which may increase the Company's refinancing pressure.

ESG Considerations

ZZNDCl faces environmental risks through its infrastructure construction and industrial park construction projects within Zhengdong New District. The Company is obligated to comply with national environmental rules and regulations in relation to air pollution, noise emissions, water and waste discharge, and other environmental issues. 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.

ZZNDCl bears social risks as it implements public policy initiatives by undertaking infrastructure construction and affordable housing projects in Zhengdong New District. 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 active communication with different stakeholders throughout the project lifecycle.

In terms of corporate governance, ZZNDCl'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.

Structural Considerations

ZZNDCl's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its clear strategic role in regional development of Zhengdong New District, thereby mitigating any differences in an expected loss that could result from structural subordination.

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