

## Credit Opinion

6 June 2024

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

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## Xingtai Transportation Construction Group Co., Ltd.

### Initial credit rating report

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

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Xingtai Transportation Construction Group Co., Ltd. (“XTCG or the “Company”) reflects (1) Xingtai Municipal Government’s very strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Xingtai Municipal Government’s capacity to support reflects Xingtai City’s status as one of the prefectural-level cities in Hebei Province, with relatively good economic foundations.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in urban and rural construction as well as public services of Xingtai City; (2) good track record of receiving government support; and (3) diversified funding channels.

However, the rating is constrained by the Company’s (1) high exposure to commercial activities especially in engineering construction sector; and (2) increasing debt burden with high financial leverage.

The stable outlook on XTCG’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 the urban development of Xingtai City in the next 12-18 months.

## Rating Drivers

- Important role in urban and rural construction as well as public services of Xingtai City
- Good track record of receiving government support
- High exposure to commercial activities especially in engineering construction sector
- Increasing debt burden with high financial leverage
- Diversified funding channels

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the Xingtai Municipal 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 decreased exposure to commercial activities and improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) the Xingtai Municipal 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 reduced regional significance or deteriorated financing ability.

## Key Indicators

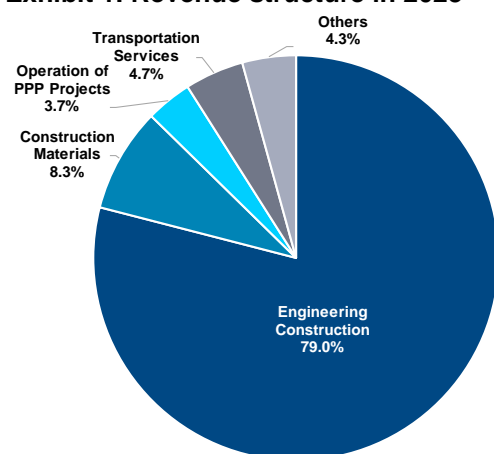
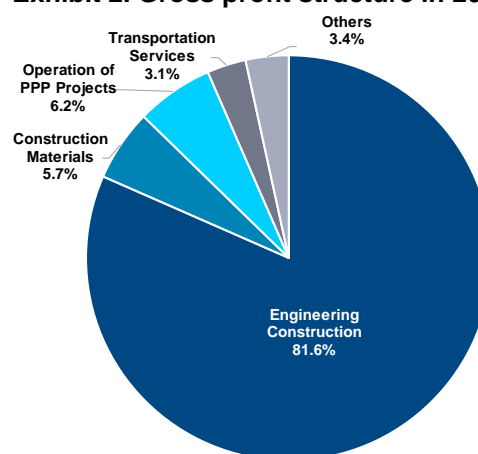
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	38.8	43.0	49.8	52.3
Total Equity (RMB billion)	16.0	17.3	17.6	17.7
Total Revenue (RMB billion)	7.1	9.0	10.2	1.8
Total Debt/Total Capital (%)	50.3	53.4	59.1	61.8

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2020, XTCG is one of the key integrated infrastructure construction, investment and operation groups in Xingtai City after consolidation of Xingtai Road and Bridge Construction Group Co., Ltd. ("XTRB") and other state-owned enterprises ("SOEs") in 2021. XTRB is a market-oriented construction enterprise and a key state-owned enterprise for the engineering and construction of transportation facilities and other infrastructure projects. XTRB maintains strong competitive advantage especially in the field of road and bridge construction in Hebei Province. XTCG focuses on 5 major business sectors including construction engineering, public transportation, urban renewal, urban and rural development, cultural tourism and commerce. The Company also expands business scopes to other commercial activities, such as industrial finance and investment, and supply chain services. As of 31 March 2024, the Company is wholly and directly owned by the State-owned Assets Supervision and Administration Commission of Xingtai Municipal Government ("Xingtai SASAC").

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Xingtai Municipal Government has a very strong capacity to provide support given its status as one of the prefectural-level cities in Hebei Province, with relatively good economic foundations. However, its fiscal metrics are moderate.

Hebei Province is a northern province of China with a good location and rich resources such as coal, steel and marine resources. Together with the Bohai Sea, it encloses the direct-administered municipalities of Beijing and Tianjin. Although affected by the policy to reduce capacity in the coal and steel industries, Hebei Province's economic scale has steadily increased over the past five years. In 2023, Hebei Province recorded a gross regional production ("GRP") of RMB4,394.4 billion with a year-over-year ("YoY") growth rate of 5.5%, ranking 11th among all provinces in China. Hebei Province is expected to benefit from the promotion of national strategies including the coordinated development of the Beijing-Tianjin-Hebei region and the construction of Xiong'an New District in the future. Hebei Province's fiscal income also increased steadily, however, its fiscal self-sufficient ratio, as calculated by general budgetary revenue over general budgetary expenditure, was moderate and its fiscal income relies on support from higher-tier government. In 2023, its general budgetary revenue amounted to around RMB428.6 billion, increasing from RMB416.8 billion in 2021.

Xingtai City is a prefecture-level city in Hebei Province and one of the cities located in the Bohai economic region. On the back of its rich mineral resources including coal mines, iron ore, gypsum mines, ceramic clay and rock salt, it is the most important energy base in North China. Its pillar industries include steel deep processing, coal chemical industry, equipment manufacturing, food and medicine, textile and clothing, new building materials and new energy. On the back of Xingtai City's steady economic growth, the general budgetary revenue increased year by year. In 2023, Xingtai City recorded a GRP of RMB258.6 billion with a YoY growth rate of 4.1%, and its general budgetary revenue amounted to RMB21.4 billion. However, the fiscal metrics remained moderate. The percentage of tax revenue to the general budgetary revenue over the past three years was 56.3%. The fiscal self-sufficient ratios were below 35% over the past three years, reflecting reliance on support from high-tier governments. The average transfer income of Xingtai Municipal Government over the past three years was RMB35.3 billion. As of the end of 2023, the local government's outstanding debt amounted to RMB110.4 billion, accounting for about 42.7% of GRP and indicating relatively large debt pressure.

**Exhibit 3. Key Economic and Fiscal Indicators of Xingtai City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	242.7	254.7	258.6
GRP Growth (%)	6.2	3.6	4.1
General Budgetary Revenue (RMB billion)	19.1	21.0	21.4
General Budgetary Expenditure (RMB billion)	57.3	57.3	64.2
Local Government Debt (RMB billion)	79.2	79.2	110.4

Source: Xingtai Municipal Government, CCXAP research

**Government's Willingness to Provide Support****Important role in urban and rural construction as well as public services of Xingtai City**

As the major entity in urban and rural construction and provision of public welfare services in Xingtai City, the Company plays an important role in the investment, construction, and operation of Xingtai City. The Company is mainly engaged in infrastructure construction, including water system construction, road projects and resettlement housing projects, which were crucial for the urbanization and public welfare of Xingtai City. In addition, XTCG also provides public transportation services in the city.

XTCG is contracted to carry out various infrastructure construction projects. Under agency construction model, the Company enters into entrusted construction contracts with the local government, and the entrusting parties pay the total cost incurred plus a certain mark-up after reviewing the project. As of 31 March 2024, the Company had completed 5 major projects, with a total invested amount of RMB2.1 billion and received government payment of RMB1.8 billion. The Company switches to self-operation model and engineering construction model from agency construction model to conduct local projects constructions. Under self-operation model, the Company is responsible for the financing of the project and achieves fund balancing through operating revenue. As of 31 March 2024, there was 1 self-operated project under construction, Xingtai Ancient Town Restoration and Urban Renewal (South District) Project, with a total investment amount of RMB3.4 billion.

Besides, the Company also shoulders the responsibilities of the construction and operation for key traffic projects in Xingtai City such as Xingtai Airport and expressway. The construction of the airport was completed, but it is not yet in operation. After the started operating of the airport, it will promote the convenience of residents' travel and economic development. The reconstruction of Xingtai-Linqing Expressway is expected to be conducted by XTCG.

Moreover, XTCG also engages affordable housing projects construction in Xingtai City, mainly includes price-restricted commercial housing, resettlement housing and public rental housing. The Company is in charging of the financing and construction of price-restricted commercial housing and resettlement housing. The Company would achieve fund balancing through sales and government repurchase as projects are completed. For public rental housing, the Company would receive financial provision for construction and charge the management fees from the local government. As of 31 March 2024, the Company had 2 main completed projects, with total investment of RMB1.0 billion and collected repayments of RMB938.0 million.

XTCG provides public transportation services in Xingtai City, which mainly include urban bus, intercity bus and long-distance passenger transport. The Company is the sole urban bus operator in Xingtai City. As of 31 March 2024, the Company had 1,203 public vehicles operating in 172 routes, with a total length of routes amounting to 2,009.4 kilometers. However, the Company has recorded continuous losses from the public transportation business due to its public welfare nature and has received government subsidies to compensate its losses.

From 2021 to 2024Q1, Xingtai Municipal Government provided operating subsidies with total amount of RMB323 million to the Company.

Overall, the Company plays an important role in the development of Xingtai City and the public welfare. In our view, the Company is unlikely to be replaced by other entities in the future.

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

XTCG has a good track record of receiving government support in various forms such as equity transfer, asset injection, financial subsidies, and government payment for construction projects. In 2021, the local government transferred 16.05 mu of land for bus parking lots, expressway assets with book value of RMB1.9 billion, 100% shares of some state-owned enterprises to the Company. In 2022, the Company received the affordable housing with book value of RMB1.1 billion from the local government. Moreover, from 2021 to 2023, the local government consistently provided a total of RMB548 million in financial subsidies for the Company. Given the strategically important role of the Company in the development of Xingtai City, we believe that the Company will continue to receive different kinds of support from the local government.

### **High exposure to commercial activities especially in engineering construction sector**

In addition to public activities, XTCG is also engaged in commercial businesses such as engineering construction, property development, self-operated projects as well as construction materials sales. We consider the Company's exposure to commercial businesses to be high especially in engineering construction sector, accounting for more than 50% of its total assets. Large number of project receivables from engineering construction business would expose certain recovery risk to the Company. In addition, the investment cycle of PPP projects is long and repayment is highly linked to the fiscal strength of the government where the project is located and bears a high degree of volatility during the downturn of land market.

XTCG conducts engineering construction business through its important subsidiary XTRB with multiple professional qualifications such as special-grade qualification for national highway engineering construction general contracting, and first-grade qualification for municipal public engineering construction general contracting. XTCG carries out variety of transportation facilities and other infrastructure projects covering highway, intercity road, bridge, tunnel, as well as municipal projects in Hebei Province and other regions through open market bidding. As of 31 March 2024, XTRB had carried out engineering construction projects in 28 provinces, autonomous regions, and municipalities across China. The number and value of new contracts signed by XTRB have grown over the past three years. From 2021 to 2023, the newly signed contract value of XTRB increased from RMB9.8 billion to RMB16.4 billion, and the number of newly signed contracts increased from 75 to 80. There are mainly two business models for engineering construction projects, which are general contracting business model and PPP model. The majority of its newly signed contracts is general contracting business model and in Hebei Province, accounting for 83.6% and 59.6% of the newly signed contract value in 2023, respectively. Engineering construction business is the primary revenue source for the Company. In 2023, the revenue incurred by engineering construction business was RMB8.0 billion, accounting for around 79% of its total revenue. However, the traffic engineering construction projects generally have relatively large investment scale, longer construction period, and longer repayment period, which would cause relatively large capital occupation pressure on the construction companies and force the construction companies to face higher capital turnover risks. In our view, traffic engineering construction business especially in road and bridge would cause high requirements for the Company's operating capital reserve and financing ability.

Under general contracting business model, XTRB is generally responsible for the construction and engineering, procurement of raw materials, management of the overall project construction progress and receives payments from the clients according to the construction progress. As of 31 March 2024, the Company had 20 projects under construction, with a total contract value of RMB9.9 billion and an invested amount of RMB4.9 billion. Under PPP model, XTRB generally cooperates with the government entity to form project company to develop and construct the project. XTRB usually holds the controlling equity interests in the project company and is charge of financing for the project. XTRB would achieve fund balancing mainly through government payment and supplemented by operating profit from the PPP project. As of 31 March 2024, the Company had 13 controlling PPP projects under construction, with a total contract value of RMB10.2 billion and an invested amount of RMB7.1 billion. In our view, the investment cycle of PPP projects is long and repayment is highly linked to the fiscal strength of the local government which bears a high degree of volatility during the downturn of land market. In addition, PPP projects face more risks of policy change which may affect the construction and operation model of PPP projects and the future operating revenue.

The Company also expands its business to property development. As of 31 March 2024, the Company had 3 residential housing projects under construction, with a total estimated investment of RMB2.5 billion and an uninvested amount of approximately RMB1.4 billion. Meanwhile, there were 2 residential housing projects under planning, with a total investment of RMB1.2 billion. Increasing investment in property development may bring more operating uncertainty and financial risks to the Company during the downturn of the real estate market.

### **Increasing debt burden with high financial leverage**

XTCG maintained fast debt growth driven by its ongoing project investments, the expansion of engineering construction business, as well as the business characteristic of high-leverage operation in the construction engineering industry. As of 31 March 2024, the Company's total debt increased to RMB28.6 billion from RMB16.1 billion in 2021. Meanwhile, the Company's total capitalization ratio sharply increased to 61.8% from 50.3% over the same period. However, the Company maintained relatively good debt maturity structure. As of 31 March 2024, the short-term debt to total debt ratio was 22.7%. Considering that the large number of engineering construction projects in pipeline and the ongoing project investments, we expect that the Company will rely on external financing to fulfill its investment needs, further increasing its debt burden in the next 12-18 months.

XTCG had moderate asset liquidity. As of 31 March 2024, the contract assets, inventories, and intangible assets accounted for around 52% of its total assets. These assets were mainly the costs incurred to fulfill the contract of engineering construction business, construction costs of PPP projects, as well as the concession rights of PPP projects, which were considered as low liquidity. In addition, XTCG's large scale of receivables, caused by engineering construction projects, also had certain capital occupation and exposed recovery risk to the Company. The counterparties to XTCG's accounts receivable are mainly SOEs or transport departments at project sites, indicating relatively manageable repayment risk.

### **Diversified funding channels**

XTCG has good access to different funding channels, such as bank loans, onshore and offshore capital markets, as well as non-standard financing products, which could mitigate the capital expenditure pressure driven by expansion of engineering construction business and ongoing project investment. The debt from bank loans and bond issuances accounted for the majority of total debt. The Company has built long-term and close relationships with different banks such as policy banks, large state-owned commercial banks, and national jointed-stock commercial banks including China Development Bank, Agricultural Development Bank of China,



and China Construction Bank Corporation. As of 31 March 2024, the Company had total bank facilities of RMB42.3 billion, with the available portion being RMB18.4 billion, indicating a sufficient standby liquidity. Moreover, the Company and its subsidiary XTRB have good track record of fund-raising activities in the capital market. From January 2023 to April 2024, the Company and XTRB issued 8 tranches of domestic bonds to raise RMB4.0 billion with reasonable coupon rates. XTRB also entered the offshore bond market in 2023 and issued 2 tranches of offshore bonds to raise a total RMB434 million. In addition, the Company's exposure to non-standard financing products was minor, which was less than 5% of its total debt as of 31 March 2024. The Company's non-standard financing product was wholly consisted of financial leasing.

## ESG Considerations

XTCG is exposed to environmental risks because it has undertaken construction projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close monitoring during the construction phase.

XTCG bears social risks as it plays a crucial role in the social welfare of the residents in the Xingtai 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.

XTCG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the Xingtai Municipal 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 \(July 2022\)](#).

## Appendix

### Exhibit 4. Peer comparison

	Xingtai Transportation Construction Group Co., Ltd.	Hebei Shunde Investment Group Company Limited
Long-Term Credit Rating	BBB <sub>g</sub> +	BBB <sub>g</sub> +
Shareholder	Xingtai SASAC (100%)	Xingtai SASAC (100%)
Positioning	Important entity in urban and rural construction as well as public services of Xingtai City	Important entity in the urban development of Xingtai City
Total Asset (RMB billion)	49.8	41.7
Total Equity (RMB billion)	17.6	13.0
Total Revenue (RMB billion)	10.2	3.2

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company data, CCXAP research

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