

Credit Opinion

16 June 2024

Ratings

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

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Wuhan Urban Construction Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g⁺ to Wuhan Urban Construction Group Co., Ltd., with stable outlook.

Summary

The A_g⁺ long-term credit rating of Wuhan Urban Construction Group Co., Ltd. (“WUCG” or the “Company”) reflects (1) Wuhan Municipal Government’s excellent 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 Wuhan Municipal Government’s capacity to support reflects its status as the capital of Hubei Province, with good economic growth and outstanding fiscal quality.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in Wuhan’s economic and social development; (2) strategic position in the implementation of public projects; (3) good track record of receiving ongoing government payments; and (4) prudent debt management.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate reliance on non-standard financing; and (3) medium contingent liability risk.

The stable outlook on WUCG’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its strategic position in the development of Wuhan City.

Rating Drivers

- Important role in Wuhan's economic and social development
- Strategic position in the implementation of public projects
- Medium exposure to commercial activities
- Good track record of receiving ongoing government payments
- Prudent debt management and moderate asset liquidity
- Access to diversified funding channels but moderate reliance on non-standard financing
- Medium contingent liability risk from external guarantees provided to local SOEs

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 decrease in exposure to commercial activities or improvement in assets quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 decrease in its strategic significance; decrease in government payments; or increase in debt burden.

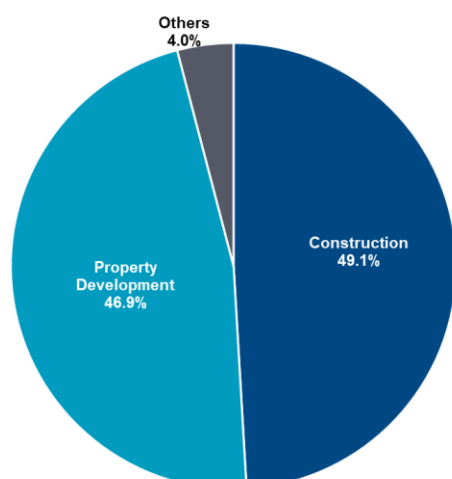
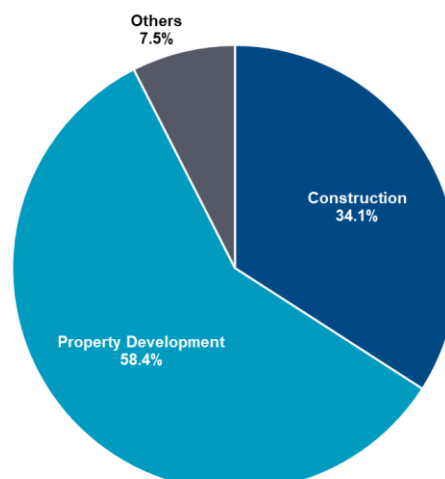
Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	356.5	364.6	388.9
Total Equity (RMB billion)	93.8	96.6	101.3
Total Revenue (RMB billion)	50.1	58.1	64.1
Total Debt/Total Capital (%)	61.5	59.8	58.7

All ratios and figures are calculated using CCXAP's adjustments
Source: Company data, CCXAP research

Corporate Profile

Established in 2002, the Company was formerly known as Wuhan Real Estate Development & Investment Group Co., Ltd. In 2020, after the merger of six state-owned enterprises (SOEs), it grew into an important local infrastructure investment and financing company ("LIIFC") in Wuhan City. The Company is primarily focused on the execution of public-policy projects, such as indemnificatory housing, shantytown renovation and urban infrastructure construction. Additionally, it also involves commercial activities, including property development, construction and leasing business. As of 31 March 2024, WUCG is ultimately controlled and 100% owned by the Wuhan State-owned Assets Supervision and Administration Commission ("Wuhan SASAC").

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

Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Support

We believe that Wuhan Municipal Government has an excellent capacity to provide support as reflected by its status as the capital of Hubei Province, with good economic growth and outstanding fiscal quality.

Hubei Province is at the center of the Yangtze River Economic Belt and is a natural link between the East and West regions' economies, with a solid foundation in different industries such as metallurgy, automobiles, chemicals, building materials, food, machinery manufacturing, textiles, electronics, and shipbuilding. Hubei Province is the seventh largest province in China by gross regional product ("GRP") in 2023, which reached RMB5.6 trillion with a year-on-year ("YoY") increase of 6.0%. Hubei Province has strong financial strength, its general budgetary revenue increased from RMB328.3 billion in 2021 to RMB369.2 billion in 2023, as a result of a significant increase in tax revenue to RMB 267.2 billion, with a relatively high YoY growth rate of 10.8%. Government fund revenue is an important supplement to the Hubei Provincial Government's financial resources, but it is greatly affected by the land market condition. In 2023, affected by the expected weakening of the real estate market, government fund revenue of Hubei Province dropped by 46.2% to RMB259.7 billion, compared with 2021. Hubei Province's debt burden is relatively heavy, its direct government debt was RMB1.6 trillion at end-2023, accounting for 28.6% of its GRP and 248.4% of its total fiscal revenue.

Exhibit 3. Key Economic and Fiscal Indicators of Hubei Province

	2021FY	2022FY	2023FY
GRP (RMB billion)	5,001.2	5,373.4	5,580.3
GRP Growth (%)	12.9	4.3	6.0
General Budgetary Revenue (RMB billion)	328.3	328.1	369.2
General Budgetary Expenditure (RMB billion)	793.7	862.4	929.6
Local Government Debt (RMB billion)	1,193.2	1,390.0	1,562.5

Source: Statistics Bureau of Hubei Province, CCXAP research

As the capital city of Hubei Province, Wuhan City is the most economically developed city in Hubei Province. Wuhan has breakthrough development of five key industries, including optoelectronics information, new energy and intelligent connected vehicles, life and health, high-end equipment, as well as Beidou. Thanks to industrial production and consumption recovery, the GRP of Wuhan City achieved RMB2.0 trillion in 2023, ranking first among all cities in Hubei Province and 9th among all prefecture-level cities in China, with a YoY increase of 5.7%. Wuhan Municipal Government's fiscal strength also improved along with the economic growth, its general budgetary revenue had increased from RMB157.9 billion in 2021 to RMB160.1 billion in 2023, of which tax income accounted for more than 80% on average during the period. Besides, Wuhan City has a good fiscal balance, with a general budgetary revenue to general budgetary expenditure ratio of 70.5% on average over the past three years. However, Wuhan Municipal Government's debt burden was growing rapidly with an outstanding direct government debt of RMB684.6 billion at end-2023, accounting for 34.2% of its GRP and 190.8% of its total fiscal revenue.

Exhibit 4. Key Economic and Fiscal Indicators of Wuhan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,771.7	1,886.6	2,001.2
GRP Growth (%)	12.2	4.0	5.7
General Budgetary Revenue (RMB billion)	157.9	150.5	160.1
General Budgetary Expenditure (RMB billion)	221.6	222.3	220.4
Local Government Debt (RMB billion)	557.4	629.5	684.6

Source: Statistics Bureau of Wuhan City, CCXAP research

Government Willingness to Support

Important role in Wuhan's economic and social development

As the third-largest LIIFC in Wuhan City in terms of assets, the Company has been designated as the primary city-level platform with the responsibility of implementing the urban upgrade strategy of the Wuhan Government. It is mainly responsible for various public projects in Wuhan City, including road reconstruction, elevated bridges, cultural and art centers, as well as indemnificatory housing. In addition, the Company has been appointed as the sole financing platform to finance shantytown renovation projects in Wuhan City by the local government.

Strategic position in the implementation of public projects

The Company holds a strategic position in the implementation of a significant number of urban infrastructure projects that are of strategic, economic, and social importance in Wuhan City. These projects can be categorized into two main types including public building projects and municipal infrastructure projects. The Company and its subsidiaries undertake infrastructure projects mainly under three models, including the leasing model, entrusted operation model, and cost compensation model. As of 31 March 2024, the Company had 18 major infrastructure projects under construction, with a total planned investment of RMB67.0 billion and an uninvested amount of RMB8.9 billion. All projects under construction are in a cost-compensation model. Among them, 8 projects were completed but not settled yet, causing uncertainty about the repayment of those projects. Besides, the four projects under the leasing model, it is expected to receive yearly rental payments of RMB836.0 million from the local government. The large scale of investment ensures the sustainability of the business, but exerts certain capital expenditure pressure.

In addition to urban infrastructure projects, the Company also participated in indemnificatory housing projects such as public rental housing and relocation housing. As of 31 March 2024, the Company has completed 6 public rental housing projects, with a total investment of RMB3.6 billion, of which RMB3.2 billion was funded

through fiscal allocation. As of 31 March 2024, it has achieved rental payments of a total of RMB630 million. Besides, it also has completed 3 relocation housing projects with a total investment of RMB2.9 billion, among which RMB732.0 million was funded by fiscal allocation. The remaining outstanding investment will be financed through the revenue generated from the sale of relocation housing. However, the Company has no indemnificatory housing projects under construction or planning, indicating moderate business sustainability for this segment.

Medium exposure to commercial activities

WUCG's commercial businesses mainly include engineering construction and commercial property development. We consider the Company's exposure to commercial businesses to be medium, accounting for around 20% of its total assets.

WUCG is exposed to the volatile property market because of its commercial property development business, which is one of the major contributors to its revenue and profit. The Company is primarily focusing on the development and sale of quality residential properties and commercial properties. This business is mainly concentrated in Wuhan City, and it is also actively expanding into key cities in the Yangtze River Delta as well as the Guangdong-Hong Kong-Macao Greater Bay Area. It ranked 26th on the list of "China's Top 100 Real Estate Enterprises" in 2023. As of 31 March 2024, it has completed 59 property projects with a total invested amount of RMB124.9 billion. The Company received project payments totaling RMB118.6 billion. It also had 59 property projects under construction or planning with a total planned investment amount of RMB233.9 billion and an uninvested amount of around RMB137.8 billion. The large number of projects in the pipeline can ensure the sustainability of this business but also bring capital expenditure pressure to the Company. Besides, uncertainty exists in this business as it is highly subject to local government planning and the local real estate market condition, which may also exert higher volatility during the downturn of China's property market.

The Company participates in the engineering construction business through its subsidiary and obtains the general contract through a public bidding process. The Company's construction projects mainly adopt EPC and PPP models. As of 31 March 2024, the Company had 36 engineering construction projects under construction by EPC model, with a total contract amount of RMB31.2 billion and has achieved total project payments of RMB16.2 billion. Furthermore, the Company is also involved in 4 engineering construction projects under the PPP model, with an aggregate investment amount of RMB11.7 billion. These projects have received total project payments of RMB508.7 million. All PPP projects have been included in the project management database of the Ministry of Finance, with guaranteed repayments. Overall, as of 31 March 2024, the Company has an unfinished contract on hand with a total value of RMB29.1 billion, which can ensure its business sustainability. The Company also has diversified upstream customers, with the top five construction owners accounting for 4.8% of the newly-signed contract amount in 2023.

Good track record of receiving ongoing government payments

As a significant state-owned enterprise wholly owned by and under the direct supervision of the Wuhan SASAC, the Company has a proven history of receiving cash payments from the Wuhan Municipal Government through various channels including subsidies, government bond allocation, cash injection and refunds from land sales. According to the government's decision, six SOEs were merged into the Company in 2020. The merger of local SOEs equips the Company with a more vertically integrated platform, enhancing its ability to undertake important government projects. From 2021 to 2023, the Company received a government bond allocation of RMB33.7 billion; it also received a refund from land sales proceeds and land costs of RMB36.2 billion. During the same period, the government injected RMB950.0 million in cash into the Company, increasing its capital

strength. Considering its strategic role in Wuhan City, we expect the local government will provide ongoing support to the Company in the future.

Prudent debt management

In the past three years, WUCG has managed to limit the growth of its debt. The Company's adjusted total debt decreased from RMB150.2 billion at end-2021 to RMB144.1 billion at end-2023, but with a relatively high total capitalization ratio of 58.7%. The modest decrease in debt is backed by robust government cash payments as well as the Company's prudent investment strategy. In addition, the Company has a relatively reasonable short-term debt servicing pressure, as reflected by its short-term debt to total debt ratio of 20.5% at end-2023. Although WUCG is responsible for massive investments in public policy projects and commercial properties, we expect the Company's debt to remain stable over the next 12-18 months, as we believe the Wuhan Government will continue to provide financial support to support the Company's capital spending and debt service in public-policy-related investments.

Moderate asset liquidity

The Company's asset liquidity is moderate as there is a large number of inventories and other non-current assets with weak liquidity assets. As of the end of 2023, the Company's inventories mainly consisted of construction costs caused by property projects, while the other non-current assets mainly consisted of costs caused by infrastructure construction projects, totally accounting for 61.7% of total assets. The moderate liquidity asset may undermine the Company's financing flexibility, which is credit-negative. In addition, as of the end of 2023, the Company had pledged assets of RMB28.3 billion for loans, accounting for 7.3% of total assets. Nonetheless, the Company has a certain amount of investment properties and long-term equity investment, accounting for 5.1% of its total assets, which can bring a small scale of rental income and investment income to the Company.

Access to diversified funding channels, but moderate reliance on non-standard financing

WUCG has strong access to funding from banks and the bond market. The Company has sufficient standby liquidity. As of the end of 2023, it had obtained total credit facilities of RMB307.0 billion from diversified domestic policy banks and commercial banks, with an available amount of RMB180.2 billion. The Company also has good access to debt capital markets. From 2021 to 2023, the Company and its subsidiaries raised RMB37.2 billion through the onshore debt market at a low average rate of 2.8%, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. Additionally, the Company also has raised USD1.0 billion through the offshore debt market during the same period.

However, the Company has a moderate reliance on non-standard financing, accounting for around 30.7% of total debt as of the end of 2023. Non-standard financing is not as transparent and stable as bank loans, which may cause related credit risks to the Company. Nevertheless, its non-standard debts have longer tenors and reasonable funding costs. We expect the Company to benefit from its improving access to the lower-cost bond and bank market, and gradually reduce its borrowing from nonstandard funding channels.

Medium contingent liability risk from external guarantees provided to local SOEs

The Company is exposed to a medium contingent liabilities risk. At end-2023, the Company recorded an external guarantee amount of RMB22.6 billion, accounting for 22.3% of its total equity. Those guaranteed entities are the SOEs in Wuhan City. The credit risk of the Company and other local SOEs might be heightened

if one guaranteed entity suffers from credit issues. However, we believe the overall risk of contingent liabilities is manageable as the government is highly likely to provide the necessary support when needed.

ESG Considerations

WUCG assumes environmental risks through its urban infrastructure 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, WUCG has played a crucial role in the social welfare of Wuhan City by involving the construction of public projects and indemnificatory housing projects in Wuhan City.

In terms of corporate governance, WUCG'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

WUCG'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 strategic position in the development of Wuhan City, 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 \(July 2022\)](#).

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