

Credit Opinion

24 December 2024

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

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Amy Chen +852-2860 7127

Credit Analyst

amy_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

Wuxi Urban Construction Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Wuxi Urban Construction Development Group Co., Ltd.'s long-term credit rating at A_g+, with stable outlook

Summary

The A_g+ long-term credit rating of Wuxi Urban Construction Development Group Co., Ltd. ("WXUC" or the "Company") reflects the Wuxi Municipal Government's excellent capacity to provide support, and the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Wuxi City's status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita gross regional product ("GRP") in Jiangsu Province.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant role in providing essential public policy services in Wuxi City, including public infrastructure projects, affordable housing and urban renewal projects; (2) solid track record of government support; and (3) strong access to diversified funding.

However, the rating is constrained by the Company's (1) medium risk exposure to commercial activities, especially in financial services; (2) moderate asset liquidity; (3) increasing debt level with a high short-term debt burden; and (4) medium level of contingent risk.

The stable outlook on WXUC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company's characteristics, such as its dominant role in providing essential public services in Wuxi City, are expected to remain stable over the next 12-18 months.

Rating Drivers

- Dominant role in urban and rural projects and affordable housing construction in Wuxi City
- Medium risk exposure to commercial activities
- Solid track record of government support
- Moderate asset liquidity
- Increasing debt level with a high short-term debt burden
- Strong access to diversified funding
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability 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 improved debt management and mitigated contingent risk.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance or deteriorated financing ability.

Key Indicators

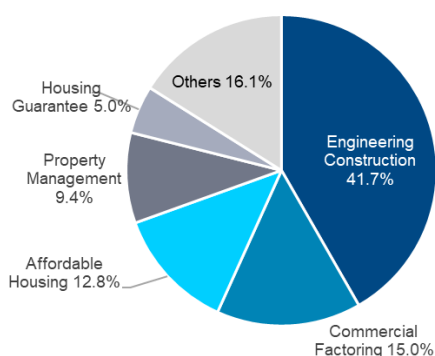
	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	123.3	67.1	80.8	85.3
Total Equity (RMB billion)	42.2	36.5	44.8	46.4
Total Revenue (RMB billion)	4.7	1.8	2.4	1.7
Total Debt/Total Capital (%)	61.3	37.2	40.8	42.3

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

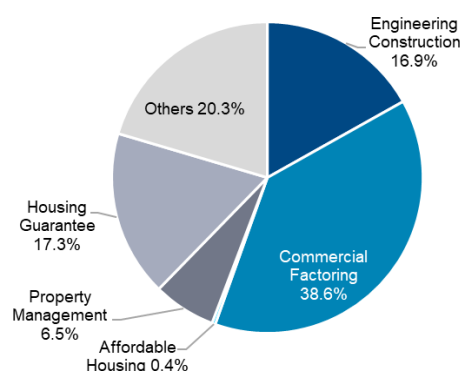
Source: Company information, CCXAP research

Corporate Profile

Founded in 2008, WXUC is the essential local urban and rural construction entity under the control of the Wuxi Municipal Government. As of 30 June 2024, WXUC was directly and wholly owned by the State-owned Assets Supervision and Administration Commission of Wuxi Municipal People's Government ("Wuxi SASAC"). In January 2022, Wuxi Taihu New City Development Group Co., Ltd. ("WXTH") was excluded from the scope of the Company's consolidated statements as entrusted voting rights from Wuxi Construction and Development Investment Co., Ltd. ("WXCD") were reduced. At the same time, the local government transferred 49% stakes in WXCD and 26% stakes in Wuxi Environmental Protection Group Co., Ltd. ("WXEP") to the Company. WXUC's position as a comprehensive urban developer and operator remains unchanged. It is mainly responsible for the urban renewal and rural revitalization projects and is the sole affordable housing constructor at the municipal level in Wuxi City. Additionally, the Company is engaged in commercial activities including engineering construction, housing guarantees, commercial factoring and supply chain services business.

Exhibit 1. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 2. Gross profit structure in 2023

Rating Considerations

Government's Capacity to Provide Support

We believe that the Wuxi Municipal Government has an excellent capacity to provide support to the Company, given its status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita GRP of RMB206,300 in Jiangsu Province.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The GRP per capita for the same period was RMB150,487, ranking first among all provinces in China. In the first nine months of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, up 5.7% YoY.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's economy is relatively strong with the third-highest GRP at the prefectural level in Jiangsu Province for more than 5 consecutive years. In 2023, it recorded a GRP of RMB1.5 trillion with a YoY growth rate of 6.0%. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry, which support the economic development and fiscal strength of the city. Wuxi City's fiscal profile is characterized by high fiscal sufficiency and a strong revenue-generating ability. During the past three years, its general budgetary revenue exceeded RMB100 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) above 80%. As of 31 December 2023, the local government's outstanding debt increased to RMB217.1 billion, accounting for 14.0% of the GRP, which is one of the lowest among the province. In the first three quarters of 2024, Wuxi City achieved a GRP of RMB1.1 trillion with a YoY increase of 6.0%.

Exhibit 3. Key economic and fiscal indicators of Wuxi City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,400.3	1,485.1	1,545.6
GRP Growth (%)	8.8	3.0	6.0
General Budgetary Revenue (RMB billion)	120.1	113.3	119.5
General Budgetary Expenditure (RMB billion)	135.8	136.6	139.0
Local Government Debt (RMB billion)	160.8	187.4	217.1

Source: Statistics Bureau of Wuxi City, CCXAP research

Government's Willingness to Provide Support

Dominant role in urban and rural projects and affordable housing construction in Wuxi City

Wuxi City is one of the well-developed cities in Jiangsu Province and there are several state-owned enterprises ("SOEs") under the Wuxi Municipal Government with different positions to provide essential urban services and promote economic development. After the reorganization in 2022, WXUC remains the comprehensive urban and rural developer and operator, mainly responsible for urban and rural construction projects, affordable housing construction and other functions in the city. Its strategic planning and development have been aligned with the local government's economic and social policies. WXTX is an important entity for investment and financing, construction and management in the Wuxi Economic Development Zone (Taihu New City), while WXCD is an important entity for infrastructure construction and industrial services in Wuxi City.

Mandated by the local government, WXUC is the sole municipal-level entity that carries out affordable housing construction projects in Wuxi City. The land of related construction projects is allocated by the government, while the Company itself raises the construction funds. The Company has provided various types of affordable housing including economically affordable housing, low-cost rental housing and mutual-property right housing. As of 30 June 2024, the Company had completed economically affordable housing projects including two major projects, Dongjing and Maowan projects, with a total investment of RMB6.1 billion. The Company sells these economically affordable housing to eligible low-income families in the city at prices guided by the local government. Part of this economically affordable housing is approved to sell to relocated households related to the reconstruction of dangerous and old house projects in Liangxi District. As of 30 June 2024, the Company had three major mutual-property right housing projects under construction with a total investment of RMB2.7 billion and an outstanding investment of RMB1.5 billion. At the same time, the Company is also responsible for dilapidated housing renovation projects in Wuxi City, including fundraising fund and demolition. The related land will be arranged to be sold through listing transfer by the local government after the preliminary demolition is completed and the local government is responsible for balancing the investment from the Company. As of 30 June 2024, there were two dilapidated housing renovation projects located in Liangxi District with an invested amount of RMB2.6 billion under construction, of which one was finished demolition and one was not.

WXUC conducts urban construction in Wuxi City mainly through agent management model such major projects as the subsidiary hospital of Jiangnan University, the Wuxi Fifth People's Hospital, and the Wuxi campus of Southeast University. The Company signs the agent construction and management contract with the entrusting party (mainly the related administrative public institutions in Wuxi City) and is responsible for the management of projects, while the project funds are from the entrusting party and paid based on the project progress. WXUC charges the agent construction management fees, which are generally 0.7%-1.5% of the total project cost. As of 30 June 2024, the Company has managed main agent construction projects with a total investment of RMB9.6 billion and planned to engage in the management of 3 projects with an estimated investment of RMB658.0 million, which also supports good sustainability of construction management business.

Medium risk exposure to commercial activities

WXUC has gradually penetrated into different types of commercial activities in recent years such as engineering construction, housing guarantees, commercial factoring and supply chain services business in addition to its construction management and affordable housing business, which are complementary to its primary policy function. However, these businesses would pose the Company with increased business risks.

The Company started the engineering construction business in September 2022 and recorded revenue of RMB1.0 billion in 2023, representing 41.7% of the total revenue. It mainly undertakes general contracting

obtained through public bidding, construction in accordance with the contract and the quality warranty during the quality warranty period. The entrusting party settles with and pays the Company in accordance with the contractual progress. The projects undertaken by the Company mainly include residential, plant and public facilities construction and are concentrated in Wuxi City, of which entrusting parties were mainly local state-owned enterprises. In 2023 and the first half year of 2024, the newly signed contracts amount of the Company was RMB3.1 billion and RMB966.0 million, respectively. Sufficient project reserves effectively supported future income. However, affected by the intensive competition in the engineering construction market, the profit margin was moderate. In addition, the Company undertakes the purchase of raw materials itself for construction, generally needs to settle with suppliers on a cash basis and enjoys fewer credit periods.

WXUC's housing guarantee and commercial factoring businesses are the main sources of profits, given the high gross profit margin. Wuxi Housing Financing Guarantee Co., Ltd ("WXFG"), the subsidiary responsible for the Company's housing guarantees business is the largest state-owned guarantee company and the sole provident fund housing loan guarantee institution in Wuxi City. Wuxi Housing Provident Fund Management Center ("Wuxi PFMC") signs the cooperate arrangements with the Company and purchases the loan guarantee service provided by the Company at the price of RMB1,000 per loan. Meanwhile, if the applicants are also involved in commercial housing loans, the Company would cooperate with commercial banks in Wuxi City to carry out the guarantee business of the portfolio loans and charge the guarantee fees from the bank. The guarantee balance increased yearly but the Company maintained a low compensation rate in recent years. At the end of 2023, WXFG's balance of the financing guarantees and the balance of guarantee liabilities increased to RMB88.7 billion and RMB26.6 billion, respectively. However, the demand for housing guarantees would fluctuate with the property market conditions and the credit quality of applicants may deteriorate during the downturn of the macroeconomic cycle.

WXUC's subsidiary focuses on the engineering factoring and supply chain. The supplier applies for factoring funds through transferring receivables to the Company and receives factoring funds equivalent to generally 70% or 80% of the transferred receivables. In 2023, the revenue from the commercial factoring business increased significantly by 64.7% to RMB362.2 million. However, factoring receivables outstanding were still relatively concentrated, mainly including central and local state-owned enterprises.

In addition, the Company started the supply chain business in 2022, mainly including steel trading, supply chain services and the purchase and sale of building materials such as ceramic tiles, stones, sanitary ware, wood products and paints. In 2023, the supply chain business achieved a gross profit of RMB49.0 million with a margin ratio of 46.9%.

Solid track record of receiving government support

WXUC has a track record of receiving government support in the form of payment for urban construction projects, government funds allocation, operating subsidies and capital injections. In 2023, the local government increased the Company's paid-in capital by RMB495.0 million in cash; and the government subsidies recorded RMB4.9 million. The Company also received government payment for urban construction according to the construction process, additional management fees as profit depends on project types and special funds for affordable housing projects.

Besides the government cash support, WXUC also received a portfolio of large-scale state-owned enterprises that increased its asset base and generated relatively large investment income. In 2022, the government transferred 49% shares of WXCD and 26% shares of WXEP to the Company thus the capital surplus increased by around RMB13.8 billion.

Given WXUC's relatively large project under construction, the Company is expected to receive government payment under the agent construction management model. We also expect WXUC to continue undertaking public projects in Wuxi City considering its solid track record and strong positions in Wuxi City. However, the scale mostly depends on the government's budgetary arrangement and urban development plans.

Moderate asset liquidity

The change in WXUC's asset scale and structure in 2022 is due to the reorganization including the deconsolidation of WXTH along with the transfer of equity shares in WXCD and WXEP. In 2023, the Company's asset scale increased by 20.4% YoY along with the development of business and an increase in debt. However, its asset liquidity remained moderate given large inventories with low liquidity and large receivables with long recovery cycles. As of 30 June 2024, the Company's assets mainly consisted of long-term equity investments (47.5%), inventories (15.1%), other receivables (13.2%), account receivables (9.4%), other non-current assets (5.4%) and cash and cash equivalent (4.5%). The long-term equity investments, mainly WXTH, WXCD and WXEP, increased as their net assets enlarged under the equity method of accounting. Inventories were mainly construction costs of agent construction management projects, affordable housing projects and demolition with a slow settlement process. Other receivables are mainly from its related companies and receivables are mainly from commercial factoring business.

Increasing debt level with a high short-term debt burden

In 2022, WXUC's financial leverage improved because of reorganization. Since 2023, WXUC's external financing needs have increased along with the continuous development of operating business and the growth in investments, thus the debt scale kept increasing. As of 30 June 2024, the Company's total debt (including perpetual debt) increased to RMB33.4 billion and the total capitalization ratio, measured as total debt over total capital, increased to 42.3%. We expect WXUC to raise additional debt to support its investment and working capital requirements and its debt leverage to increase in the next 12-18 months.

Attentionally, the Company's debt structure has a high concentration of short-term debt maturities. As of 30 June 2024, the short-term debt accounted for around 44.9% of total debt. At the same time, the Company had a cash balance of RMB3.8 billion. Despite low restricted cash, the cash just covered around 25.6% of its short-term debt. Nevertheless, we expect WXUC to be able to refinance most of its short-term debt because of its status as the important SOE in Wuxi City and strong access to diversified funding.

Strong access to diversified funding

WXUC has strong banking relationships and good access to high-quality debt funding. Its primary funding sources are commercial bank loans and the public bond market, which collectively accounted for around 74% of its debt as of 30 June 2024. At the same time, the Company had sufficient standby liquidity sources with undrawn bank facilities of RMB43.8 billion. The Company also has a good track record of fund-raising activities in the capital market with low credit spreads over the past 24 months and has issued different products such as ABS and MTNs. For example, in March 2023, the Company raised RMB1.5 billion via a five-year MTN with a coupon rate of 3.42%; and in April 2024, the Company raised RMB1.4 billion via a 10-year MTN with a coupon rate of 2.97%. As an essential urban construction entity in Wuxi City, the Company is expected to benefit from the good financial environment of the city, which is one of the well-developed cities in China with strong economic strengths.

Medium level of contingent risk

WXUC has moderate contingent risks because external guarantees accounted for 18.7% of its adjusted net assets (excluding perpetual debt) as of 30 June 2024. All these guarantees are provided to other SOEs in Wuxi City. The two largest counterparties were Wuxi Caitong Financial Leasing Co., Ltd., an important financial subsidiary under WXCD, and WXTH, an SOE responsible for the infrastructure construction projects in central Taihu New Town, respectively. We expect the Wuxi Municipal Government to have sufficient fiscal and financial resources for stepping in and coordinating the financial resources if any local SOEs guaranteed by the Company are in financial distress.

ESG Considerations

WXUC faces environmental risks because it has undertaken infrastructure construction and affordable housing construction projects. 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.

The Company is also exposed to social risks due to its role as a public services provider. Demographic changes, public awareness and social priorities shape the government's target for WXUC or affect the government's propensity to support the Company.

WXUC's governance considerations are also material as the Company is subject to oversight by the Wuxi City's Government and must 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

	Wuxi Urban Construction Development Group Co., Ltd.	Wuxi Construction and Development Investment Co., Ltd.
Long-Term Credit Rating	A _g +	A _g +
Shareholders	Wuxi SASAC (100%)	Wuxi SASAC (51.18%) and WXUC (48.82%)
Positioning	Key entity in urban and rural construction and the sole entity for affordable housing at municipal level in Wuxi City	Key entity for infrastructure construction, and industrial services in Wuxi City
Total Assets (RMB billion)	80.8	94.5
Total Equity (RMB billion)	44.8	32.5
Total Revenue (RMB billion)	2.4	4.5
Total Debt/Total Capital (%)	40.8	61.6

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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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