

Credit Opinion

27 February 2025

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

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Zhuzhou City Construction Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zhuzhou City Construction Development Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook

Summary

The BBB_g long-term credit rating of Zhuzhou City Construction Development Group Co., Ltd. ("ZCDG" or the "Company") reflects Zhuzhou Municipal Government's (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Zhuzhou Municipal Government's capacity to provide support reflects Zhuzhou City's economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) essential role in infrastructure construction and public services in Zhuzhou City; (2) good track record of receiving government support; and (3) good access to funding.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increasing debt burden and high debt leverage; and (3) moderate asset liquidity.

The stable outlook on ZCDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Zhuzhou City.

Rating Drivers

- Essential role in infrastructure construction and public services in Zhuzhou City
- Medium exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden and high debt leverage
- Moderate asset liquidity
- Good access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improvement in debt leverage or assets quality.

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 decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	131.7	137.7	141.2	146.6
Total Equity (RMB billion)	47.8	47.6	46.7	47.0
Total Revenue (RMB billion)	7.0	6.2	6.5	4.3
Total Debt/Total Capital (%)	60.4	62.2	62.9	63.4

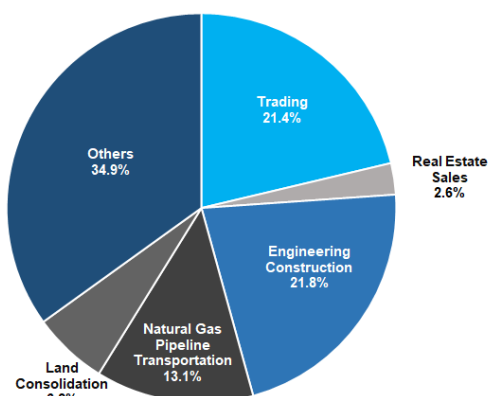
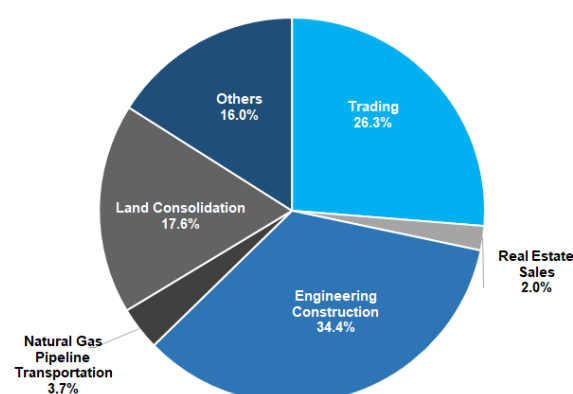
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

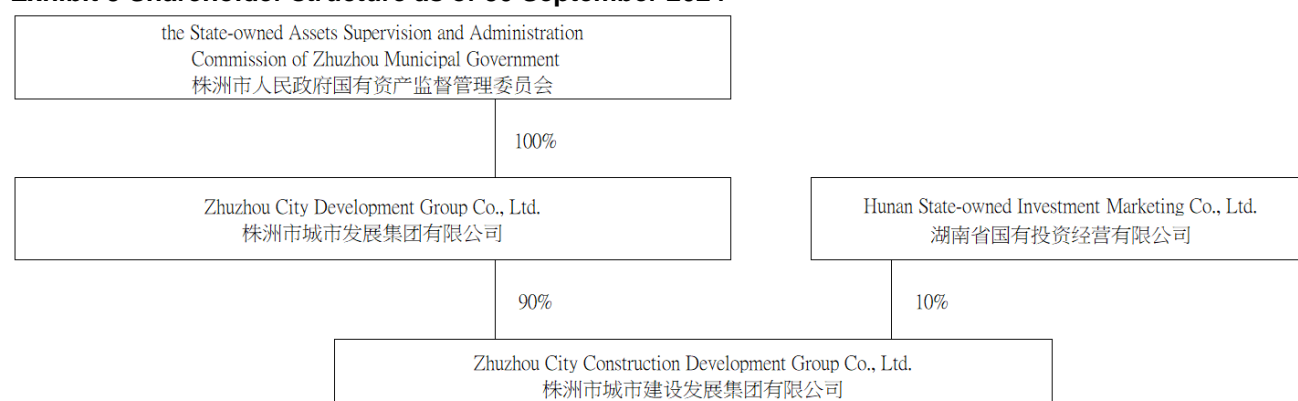
Corporate Profile

Established in 2003, ZCDG is the most important local infrastructure investment and financing company, holding the position of the largest state-owned operation platform in Zhuzhou City in terms of asset size. The Company is mainly responsible for infrastructure construction and land consolidation in the region. It also provides key public utility services in Zhuzhou City, including natural gas, water supply, sewage treatment, and public transportation. In addition, the Company is engaged in commercial activities such as engineering construction, property development, and trading businesses.

As of 30 September 2024, ZCDG was 90% owned by Zhuzhou City Development Group Co., Ltd., with Hunan State-owned Investment Marketing Co., Ltd. holding the remaining 10%. Its ultimate controlling shareholder is the State-owned Assets Supervision and Administration Commission of Zhuzhou Municipal Government ("Zhuzhou SASAC").

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

Source: Company information, CCXAP research

Exhibit 3 Shareholder structure as of 30 September 2024

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Zhuzhou Municipal Government has a strong capacity to provide support given Zhuzhou City's economic importance in Hunan Province and its key role in the Changsha-Zhuzhou-Xiangtan Economic Integration Area, with ongoing economic growth.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2023, the gross regional product ("GRP") of Hunan Province was RMB5.0 trillion, ranking 9th among all provinces in China. Benefited from economic recovery and industrial development, the provincial government's general public budget revenue increased to RMB336.1 billion in 2023 from RMB310.2 billion in 2022, with tax revenue accounting for 65.7% of its general public budget revenue. In 2024, the GRP of Hunan Province was RMB5.3 trillion, with a year-on-year ("YoY") growth rate of 4.8%. At the same time, general public budget revenue of Hunan Province achieved RMB344.9 billion, with a YoY growth rate of 2.6%.

Located in the east of Hunan Province, Zhuzhou City is a key city in the Changsha-Zhuzhou-Xiangtan Economic Integration Area. It is also one of the most important transportation hubs in central China, with the Beijing-Guangzhou Railway and the Shanghai-Kunming Railway lines intersecting in the city. The pillar industries in Zhuzhou have formed a “3+5” industrial layout, including core industries of rail transportation, aviation, and automobile, and emerging industries of new energy, new materials, electronic information, bio-pharmaceutical, and environmental protection. In 2024, Zhuzhou City recorded GRP of RMB390.2 billion, ranking 5th by GRP among 14 prefecture-level cities in Hunan Province, with a YoY increase of 5.5%. The general budgetary revenue of Zhuzhou City increased slightly from RMB19.2 billion in 2023 to RMB19.5 billion in 2024, with tax income accounting for 61.2% of its fiscal revenue in 2024. However, Zhuzhou City’s fiscal balance is still weak, with the ratio of general budgetary revenue to general budgetary expenditure being 32.9% in 2024. Besides, due to the downturn in the local land market, the government fund revenue decreased by 33.2% YoY to RMB20.0 billion in 2023. As of end-2024, the government debt balance of Zhuzhou was RMB144.4 billion, accounting for 37.0% of GRP.

Exhibit 4. Key economic and fiscal indicators of Zhuzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	361.7	366.8	390.2
GRP Growth (%)	4.5	5.2	5.5
General Budgetary Revenue (RMB billion)	19.1	19.2	19.5
General Budgetary Expenditure (RMB billion)	54.1	59.2	-
Local Government Debt (RMB billion)	101.4	118.0	144.3

Source: Statistic Bureau of Zhuzhou City, CCXAP research

Government’s Willingness to Provide Support

Essential role in infrastructure construction and public services in Zhuzhou City

As the largest state-owned asset operation platform in Zhuzhou City, ZCDG has played an essential and active role in implementing the local government’s major strategic initiatives for urban planning and municipal construction in Zhuzhou City, by undertaking a series of infrastructure and land development projects in the region. Considering its strategic importance in undertaking public policy projects in the region, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Entrusted by the local government, the Company conducts infrastructure construction and land development businesses under agency construction model. As of 30 September 2024, the Company had 2 infrastructure construction projects under construction, with total estimated investment of RMB8.0 billion and uninvested amount of around RMB1.5 billion, and 6 land consolidation projects under construction, covering more than 1,573 mu, with uninvest amount of about RMB468 million. There were also 2 infrastructure construction projects in the planning stage, with a total estimated investment of RMB899.3 million. However, the sustainability of infrastructure construction business is moderate as it has a small number of construction projects in the pipeline, and the land development business is subject to the local government’s policy and the land market conditions. In the future, the Company plans to increase its efforts in developing market-oriented self-operated projects.

ZCDG has a strong market position and competitiveness in water supply and sewage treatment services in Zhuzhou City. As the sole water supplier in Zhuzhou City, the Company supplies tap water to more than 349,100 residents through four water supply plants, with a total water supply capacity of 1.6 million tons per day. Additionally, as a sewage treatment service provider in Zhuzhou City, it plays a significant role in managing the treatment and disposal of both domestic and industrial wastewater in the area through 6 sewage treatment

plants. The water supply and sewage treatment services have offered stable revenue and cash flow to the Company. In 2023, the Company achieved a revenue of RMB329 million from the sales of tap water, with a gross profit margin of 27.0%, and revenue of RMB333 million from sewage treatment, with a gross profit margin of 27.4%.

The Company operates its natural gas business segment primarily through its subsidiary Zhuzhou Xinao Gas Development Co., Ltd. (“Zhuzhou Xinao”), which is one of the leading gas providers in Hunan Province. Zhuzhou Xinao serves as the exclusive piped natural gas distributor in Zhuzhou City, providing comprehensive gas supply services to approximately 40 thousand households in the city. As of 30 September 2024, it had provided gas supply of over 293 million cubic meters. The Company’s gas business holds a monopoly position in Zhuzhou City, ensuring its operational stability. However, the increasing upstream natural gas expenses may adversely affect its operating profitability.

Through its subsidiary, the Company is involved in bus operation services, offering public transportation within both urban and suburban regions of Zhuzhou City, with transportation network of over 1,500 kilometers. Moreover, given its public service role, the local government offers financial subsidies to support its operational activities. In 2023, the Company has received subsidies totaling RMB357 million.

Medium exposure to commercial activities

Apart from the public policy activities, ZCDG also participates in commercial activities such as engineering construction, property development, and trading businesses. As the Company increases its investment in self-operated projects, its exposure to commercial businesses has risen. At present, the Company’s exposure to commercial businesses is medium, accounting for about 16% of its total assets. In addition, the engineering construction and property development businesses are susceptible to local property market, and the trading business is exposed to concentration risk.

The Company is actively involved in the engineering construction sector via its subsidiary, Hunan Guoxin Construction Group Co., Ltd. (“Guoxin Construction”), holding level one qualification as a national municipal public works construction general contractor. Guoxin Construction undertakes projects including public infrastructure, urban development, and various public works such as river enhancement and landscaping through bidding in the public market. As of end of 2023, it had contracts at hand with a total value of RMB4.7 billion, which can ensure its business sustainability. This sector accounts for over 20% of the Company’s total operating income in 2023, making it one of the major revenue sources.

The Company also involved in property development business, comprising real estate development and the construction and management of ancillary facilities. Due to the discrepancy in timing between sales and revenue recognition, its real estate sales revenue experienced a significant decline in 2023. In 2024, the Company completed 2 property projects, whose sale progress is subject to uncertainty given the downturn of local property market. Besides, the Company has slowed down its land acquisition and property development. As of 30 September 2024, the Company had no property projects under construction or planning, indicating low business sustainability.

The Company has been engaged in trading business mainly through its subsidiary, namely Zhuzhou Jiufang Equipment Co., Ltd. (“Jiufang Equipment”), since its acquisition in April 2020. The trading products mainly include wheels, axles and frame components. This business provides supplementary income to the Company. In 2023, the revenue from trading business accounted for 21.4% of total revenue. However, its gross profit margin has decreased, dropping from 19.4% in 2022 to 13.5% in 2023. The decline is primarily attributed to the

significant increase in research and development expenses for developing new products. In addition, Jiufang Equipment is exposed to concentration risk as its sales to top five customers accounted for 95.8% of total sales in 2023, with CRRC Zhuzhou Electric Locomotive Co., Ltd. being its core customer.

The Company invests in self-operated projects using its own funds or through financing, achieving financial balance through asset operation and land transfer revenue. As of the end of 2023, the Company had three self-operated projects under construction, with a total planned investment of RMB3.6 billion and an uninvested amount of RMB2.4 billion. Given the significant remaining investment required for these ongoing projects, there is uncertainty regarding future financial balance.

Good track record of receiving government support

As the largest infrastructure construction entity in Zhuzhou City, ZCDG has a proven track record of receiving government support in the form of capital injection, asset transfers, the infrastructure projects payments, and financial subsidies. From 2021 and 2024Q3, the Company has received government subsidies totally of RMB3.5 billion. Since 2022, the government has injected cash, assets, and equity into the Company, resulting in an increase of RMB487.4 million in capital reserves and RMB138.8 million in paid-in capital. Furthermore, the local government has consistently made project payments to the Company in accordance with the agency agreements. Considering the Company's strategic role in the development of Zhuzhou City, we believe that the Zhuzhou Municipal Government will persist in its support.

Increasing debt burden and high debt leverage

ZCDG's debt burden has steadily increased over the past few years, primarily due to ongoing financing for construction projects. The Company's total debt, including perpetual bonds, rose from RMB74.6 billion at the end of 2022 to RMB80.2 billion by the end of 2024Q3, resulting in a high total capitalization ratio of approximately 63.4%. In addition, the Company faces high short-term debt repayment pressure, with short-term debt constituting around 38.5% of total debt and a cash to short-term debt ratio of 0.2x as of 30 September 2024. Given the substantial capital expenditure requirements, we anticipate that the Company's debt burden will continue to increase over the next 12 to 18 months.

The Company faces low contingent liabilities risk. As of 30 September 2024, the Company recorded an external guarantee amount of RMB1.0 billion, accounting for 2.1% of its total equity.

Moderate asset liquidity

ZCDG's asset liquidity remains moderate, which may limit its financing flexibility. As of 30 September 2024, the Company's total assets were predominantly composed of inventories and total receivables, representing 68.5% of the total. The inventories mainly consist of land and investment costs associated with land development and infrastructure projects, while total receivables include unpaid amounts from the Zhuzhou Municipal Finance Bureau and other local state-owned enterprises. As of 30 September 2024, the Company had pledged assets worth RMB24.1 billion for loans, making up 16.5% of total assets. Furthermore, it holds franchises in public utility services such as natural gas, water supply, sewage treatment, and public transportation, which can generate stable income.

Good access to funding

ZCDG has access to funding mainly from banks and bond markets. The Company has approved line of credit from diversified banks, including policy banks and state-owned commercial banks. As of 30 September 2024, it

had obtained total credit facilities of RMB98.9 billion, with unutilized amount of RMB41.1 billion, indicating sufficient standby liquidity. The Company also has access to debt capital markets. From January 2021 to September 2024, the Company had raised about RMB41.7 billion and USD400.0 million through onshore and offshore bond markets. As of 30 September 2024, its non-standard financing accounted for less than 10% of total debt.

ESG Considerations

ZCDG assumes environmental risks through its infrastructure construction projects as well as sewage treatment and gas provision. 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, ZCDG has played a crucial role in the social welfare of Zhuzhou City by involving the public utility services such as water provision and public transportation in Zhuzhou City.

In terms of corporate governance, ZCDG'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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