

CCXAP affirms Zigong Construction & Engineering Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 3 December 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Zigong Construction & Engineering Co., Ltd (“ZCEC” or the “Company”) long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of Zigong Construction & Engineering Co., Ltd. reflects Zigong Municipal Government's strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Zigong Municipal Government's capacity to provide support reflects it as a national demonstration zone for industrial transformation and upgrading of old industrial cities, which has relatively good economic fundamentals.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) high sustainability for public projects; (2) good predictability of government support; and (3) reasonable debt leverage. However, the rating is constrained by the Company's (1) medium exposure to commercial activities with controllable risks; (2) weak asset liquidity; and (3) relatively large exposure to high-cost non-standard financing.

Corporate Profile

Formerly known as Sichuan Shenhai Construction Engineering Co., Ltd., ZCEC was acquired by Zigong Urban Construction Investment and Development Group Co., Ltd. (“ZUCI”) in 2014. ZCEC is primarily engaged in infrastructure construction projects in Zigong City. It also undertakes commercial activities such as merchandise sales, engineering construction, and property leasing. As of 30 November 2024, the Company is wholly owned and ultimately controlled by the Zigong Municipal Government State-owned Assets Supervision and Administration Commission (“Zigong SASAC”).

Rating Rationale

Credit Strengths

Major infrastructure construction entity in Zigong City with high sustainability for public projects. There are four major Local Infrastructure Investment and Financing Companies (“LIIFCs”) in Zigong City, namely Zigong State-owned Capital Investment and Operation Group Co., Ltd. (“ZSCI”), Zigong High-tech State-owned Capital Investment and Operation Group Co., Ltd. (“ZHSC”), ZUCI, and ZCEC. ZUCI is mainly responsible for the shantytown renovation, resettlement housing and infrastructure construction. As one of the major infrastructure construction entities in Zigong City, we believe the Company will maintain its important position in local public projects in Zigong City.

Good predictability of government support. The shareholding structure and business operations of the Company are highly correlated with Zigong Municipal Government, ZCEC has

a good track record of receiving strong government support, including asset injections, project repayment, and financial subsidies. Given the strategic role of ZCEC in Zigong City, we expect the Company will continue to receive support from the Zigong Municipal Government in the future.

Reasonable debt leverage. The debt leverage of the Company increased from that of 2022 and remained low. Its capitalization ratio had increased from 21.6% at end-2022 to 33.4% at mid-2024, while its total debt had increased to RMB2.6 billion over the same period. However, the Company's debt structure is relatively unbalanced, with short-term debt accounting for about 41.6% of its total debt. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-18 months.

Credit Challenges

Medium exposure to commercial activities with controllable risks. In addition to public activities, ZCEC is also involved in other commercial activities such as merchandise sales, engineering construction, and property leasing. We estimate that the Company has medium commercial exposure as the proportion of commercial business assets accounts for around 30% of its total assets.

Weak asset liquidity. As of 30 June 2024, the Company's total asset mainly consisted of inventories and receivables, accounting for 83.7% of its total asset. Inventories are construction cost, and receivables are mainly unreceived payments from local state-owned companies, all of which are considered low liquidity. At the end of 2024H1, the restricted asset was RMB218.2 million, which was mainly pledged for borrowing.

Relatively large exposure to high-cost non-standard financing. ZCEC's large investment needs could be partially supported by its good relationship with large domestic banks. However, the Company has a relatively large exposure to high-cost non-standard financing (mainly financial leasing). As of 30 June 2024, non-standard financing accounted for around 17.4% of its total debt, with an average financing cost of 8%.

Rating Outlook

The stable outlook on ZCEC'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 public policy projects in Zigong City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial activities.

What could downgrade the rating?



The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in company characteristics decrease the local government's willingness to support, such as reduced sustainability for public policy projects.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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