

CCXAP assigns first-time long-term credit rating of BBB_g+ to Zhuzhou City Construction Development Group Co., Ltd., with stable outlook.

Hong Kong, 26 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Zhuzhou City Construction Development Group Co., Ltd. (“ZCDG” or the “Company”), with stable outlook.

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) strong capacity to provide support; and (2) extremely 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) strategic importance to infrastructure construction and land consolidation of Zhuzhou City; (2) essential role in providing public services in Zhuzhou City; (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt burden and high debt leverage; and (2) moderate asset liquidity.

Corporate Profile

Established in 2003, ZCDG is the most important local infrastructure investment and financing company as well as the largest state-owned operation platform in Zhuzhou City by 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 also engaged in commercial activities such as engineering construction, property development, and trading businesses.

As of 31 December 2023, ZCDG was 90% owned by Zhuzhou City Development Group Co., Ltd., with Hunan State-Owned Investment and Operation 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”).

Rating Rationale

Credit Strengths

Strategic importance to infrastructure construction and land consolidation of Zhuzhou City. As the largest state-owned asset operation platform in Zhuzhou City, ZCDG plays a significant role in implementing the Zhuzhou Municipal Government’s urban infrastructure construction and land consolidation policies and plans. As a primary government-authorized infrastructure constructor in Zhuzhou City, the Company has undertaken a wide variety of public

policy projects within Zhuzhou City, including the construction of important roads and bridges in Zhuzhou City.

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. Given its strategic position in the development of Zhuzhou City, we believe that the Zhuzhou Municipal Government will continue to provide support to the Company.

Credit Challenges

Increasing debt burden and high debt leverage. ZCDG's debt burden has increasingly grown over the past three years, due to the ongoing financing for the construction projects. The Company's total debt (including perpetuals) had increased from RMB64.4 billion at end-2020 to RMB76.8 billion at end-2023Q3, and its total capitalization ratio was at a high level of around 61.8%.

Moderate asset liquidity. ZCDG has moderate asset liquidity, which may undermine its financing flexibility. As of 30 September 2023, the Company's total asset mainly consisted of inventories and receivables, accounting for 71.2% of its total asset. Inventories are mainly lands and investment costs for land development and infrastructure construction projects, while receivables are unreceived payments from the Zhuzhou Municipal Finance Bureau and other local state-owned enterprises.

Rating Outlook

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.

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.

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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