

CCXAP assigns first-time long-term credit rating of BBB_g+ to Zhengzhou Road & Bridge Construction Investment Group Co., Ltd., with stable outlook.

Hong Kong, 26 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Zhengzhou Road & Bridge Construction Investment Group Co., Ltd (“ZZRB” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Zhengzhou Road & Bridge Construction Investment Group Co., Ltd (“ZZRB” or the “Company”) reflects (1) Zhengzhou Municipal Government’s excellent capacity to provide support, and (2) the local government’s high willingness to provide support, based on our assessment of the Company’s characteristics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong position in transportation infrastructure construction of Zhengzhou City; and (2) track record of receiving government supports. However, the rating is constrained by (1) the Company’s high debt leverage with relatively large short-term debt burden; (2) the government’s reimbursement of its construction projects is prolonged; and (3) moderate asset liquidity.

Corporate Profile

Established in 2003, ZZRB is the key transportation infrastructure construction and operation entity in Zhengzhou City. The primary business of the Company is transportation infrastructure construction, including construction of municipal roads, highways and bridges. In addition, the Company also engages in commercial businesses including survey and design, engineering supervision, trading and real estate development. As of 31 December 2023, the Company is wholly owned by Zhengzhou Construction Investment Group Co., Ltd. (“ZCIG”) and ultimately controlled by the Zhengzhou Finance Bureau.

Rating Rationale

Credit Strengths

Strong position in transportation infrastructure construction of Zhengzhou City. ZZRB has an important position in transportation infrastructure construction of Zhengzhou City. Since its establishment, the Company has undertaken and completed a series of large-scale transportation infrastructure construction projects in Zhengzhou City, such as roads, bridges and highways within the center districts of Zhengzhou City. In addition, ZZRB is responsible for the operation and management of the only municipal expressway in Zhengzhou City under franchise mode.

Track record of receiving government supports. ZZRB has received ongoing support from the local government including capital injection, asset transfers, project payments, financial subsidies, and project offerings. Given the Company’s public policy role in transportation construction, we expect the local government will continue to support the Company in the future.

Credit Challenges

High debt leverage with relatively large short-term debt burden. ZZRB's total debt continued to increase in the past few years due to ongoing financing needs. In addition, the Company has a certain short-term repayment pressure given its relatively high short-term burden. Considering the future investment for construction projects, we expect the Company's debt burden will continue to increase in the foreseeable future.

Government reimbursement of construction project is relatively lagging behind. As of 30 June 2023, the Company had completed 17 government entrusted construction projects awaiting repayment from the local government. These projects have been completed and entered into the repurchase period, with no subsequent investment plan. However, the repayment schedule has been prolonged. Most of these projects has elapsed the repurchase period, yet the payment has not yet been reimbursed. As of mid-2023, the total estimated reimbursement amount was RMB7.9 billion, with an outstanding amount of RMB2.7 billion.

Moderate asset liquidity. The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 December 2023, the Company's total asset mainly consists of receivables, fixed assets and contract assets, totally accounting for 63.9% of total assets. Besides, the Company had pledged assets of RMB2.5 billion for loans, representing 11.9% of total assets as of 31 December 2023.

Rating Outlook

The stable outlook on ZZRB's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in transportation infrastructure construction of Zhengzhou City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity 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 improvement in debt leverage or assets quality; or increasing in importance of business position.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reducing in its strategic significance and government payments; reducing in refinancing capacity; or increasing in liquidity risk.

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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