

CCXAP assigns first-time long-term credit rating of BBB_g+ to Construction Investment Co., Ltd Henan Province Zhengzhou New District, with stable outlook.

Hong Kong, 9 May, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Construction Investment Co., Ltd Henan Province Zhengzhou New District (“ZZNDCI” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Construction Investment Co., Ltd Henan Province Zhengzhou New District (“ZZNDCI” or the “Company”) reflects (1) Zhengdong New District Government’s 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 Zhengdong New District Government’s capacity to provide support reflects Zhengdong New District’s comprehensive economic strength, with good economic fundamentals and high fiscal self-sufficiency.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strategic role in the regional development of Zhengdong New District with relatively high business sustainability; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) high exposure to commercial activities with relatively high capital expenditure pressure; and (2) fast debt growth and moderate asset liquidity.

Corporate Profile

Established in 2002, ZZNDCI is an important infrastructure investment, construction and operation entity in Zhengdong New District with the largest assets scale, focusing on infrastructure construction, resettlement housing as well as municipal and environmental services. In addition, the Company also engages in commercial businesses including industrial park development and operation, property leasing, and real estate development. As of 31 December 2023, the Management Committee of Zhengdong New District held 90.62% of ZZNDCI’s shares, while the Finance Bureau of Henan Province held the remaining 9.38% of the Company’s shares. The Management Committee of Zhengdong New District is the ultimate controller of the Company.

Rating Rationale

Credit Strengths

Strategic role in regional development of Zhengdong New District. As an important urban infrastructure investment and operation entity in Zhengdong New District, ZZNDCI has a clear strategic role in regional development, especially in the development of industrial parks and supporting infrastructure within the High-speed Rail Station Area and the Baisha Park Area. The Company is commissioned to carry out various key infrastructure construction projects, such as roads, tunnels, schools, and housing, which are crucial to local economic and industrial

development. We believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government support. ZZNDCl has received ongoing support from the local government including capital injection, equity and asset transfers, project payments, and financial subsidies. ZZNDCl continuously received asset injections from the local government, such as roads, bridges, rivers, and water and heating pipelines. Given the Company's strategic position in the regional development of Zhengdong New District, we expect ZZNDCl will continue to receive support from the local government in the future.

Credit Challenges

High exposure to commercial activities. ZZNDCl also engages in commercial businesses such as real estate development, industrial park construction and operation as well as property leasing. We consider the Company's exposure to commercial activities to be high as the commercial assets accounted for more than 30% of the total assets as of end-2023. Moreover, the large investment needs in self-operated projects may increase the Company's capital expenditure pressure.

Fast debt growth and moderate asset liquidity. ZZNDCl's total debt continued to increase in the past few years due to its ongoing investment needs in real estate development and industrial parks construction. The Company also has certain short-term debt pressure. In addition, the Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 March 2024, the Company's total asset mainly consists of inventories and investment properties, totally accounting for 71.0% of total assets.

Rating Outlook

The stable outlook on ZZNDCl's rating reflects our expectation that the Zhengdong New District Government's capacity to support will remain stable, and the Company will maintain its important role in Zhengdong New District over the next 12-18 months.

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 reduced exposure to commercial activities.

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 reduced strategic significance and government payments or reduced in refinancing capacity.



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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