CCXAP assigns first-time long-term credit rating of A_g+ to Wuhan Urban Construction Group Co., Ltd., with stable outlook.

Hong Kong, 16 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of A_g+ to Wuhan Urban Construction Group Co., Ltd., ("WUCG" or the "Company"), with stable outlook.

The A_g+ long-term credit rating of WUCG reflects (1) Wuhan Municipal Government's excellent capacity to provide support, and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Wuhan Municipal Government's capacity to support reflects its status as the capital of Hubei Province, with good economic growth and outstanding fiscal quality.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in Wuhan's economic and social development; (2) strategic position in the implementation of public projects; (3) good track record of receiving ongoing government payments; and (4) prudent debt management. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) moderate reliance on non-standard financing; and (3) medium contingent liability risk.

Corporate Profile

Established in 2002, the Company was formerly known as Wuhan Real Estate Development & Investment Group Co., Ltd. In 2020, after the merger of six state-owned enterprises (SOEs), it grew into an important local infrastructure investment and financing company ("LIIFC") in Wuhan City. The Company is primarily focused on the execution of public-policy projects, such as indemnificatory housing, shantytown renovation and urban infrastructure construction. Additionally, it also involves commercial activities, including property development, construction and leasing business. As of 31 March 2024, WUCG is ultimately controlled and 100% owned by the Wuhan State-owned Assets Supervision and Administration Commission ("Wuhan SASAC").

Rating Rationale

Credit Strengths

Important role in Wuhan's economic and social development. As the third-largest LIIFC in Wuhan City in terms of assets, the Company has been designated as the primary city-level platform with the responsibility of implementing the urban upgrade strategy of the Wuhan Government. It is mainly responsible for various public projects in Wuhan City, including road reconstruction, elevated bridges, cultural and art centers, as well as indemnificatory housing.

Strategic position in the implementation of public projects. The Company holds a strategic position in the implementation of a significant number of urban infrastructure projects that are of strategic, economic, and social importance in Wuhan City. These projects can be categorized into two main types including public building projects and municipal infrastructure projects. The

Company and its subsidiaries undertake infrastructure projects mainly under three models, including the leasing model, entrusted operation model, and cost compensation model.

Good track record of receiving ongoing government payments. As a significant state-owned enterprise wholly owned by and under the direct supervision of the Wuhan SASAC, the Company has a proven history of receiving cash payments from the Wuhan Municipal Government through various channels including subsidies, government bond allocation, cash injection and refunds from land sales. According to the government's decision, six SOEs were merged into the Company in 2020. The merger of local SOEs equips the Company with a more vertically integrated platform, enhancing its ability to undertake important government projects.

Prudent debt management. In the past three years, WUCG has managed to limit the growth of its debt. The Company's adjusted total debt decreased from RMB150.2 billion at end-2021 to RMB144.1 billion at end-2023, but with a relatively high total capitalization ratio of 58.7%. The modest decrease in debt is backed by robust government cash payments as well as the Company's prudent investment strategy.

Credit Challenges

Medium exposure to commercial activities. WUCG's commercial businesses mainly include engineering construction and commercial property development. We consider the Company's exposure to commercial businesses to be medium, accounting for around 20% of its total assets.

Medium contingent liability risk. The Company is exposed to a medium contingent liabilities risk. At end-2023, the Company recorded an external guarantee amount of RMB22.6 billion, accounting for 22.3% of its total equity. Those guaranteed entities are the SOEs in Wuhan City. The credit risk of the Company and other local SOEs might be heightened if one guaranteed entity suffers from credit issues.

Moderate reliance on non-standard financing. The Company has a moderate reliance on non-standard financing, accounting for around 30.7% of total debt as of the end of 2023. Non-standard financing is not as transparent and stable as bank loans, which may cause related credit risks to the Company.

Rating Outlook

The stable outlook on WUCG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic position in the development of Wuhan City

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengths the local government's willingness to support, such as decrease in exposure to commercial activities or improvement in assets quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in debt burden.

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

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:
http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Olivia Feng
Senior Credit Analyst
+852-2860 7133
olivia_feng@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address:	Suites 1904-1909, 19/F, Jardine House,
	1 Connaught Place, Central, Hong Kong
Website:	www.ccxap.com
Email:	info@ccxap.com
Tel:	+852-2860 7111
Fax:	+852-2868 0656