

## Credit Opinion

14 August 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd., with stable outlook**

### Summary

The BBB<sub>g</sub> long-term credit rating of UETD Construction & Development State-owned Capital Investment Operation (Group) Co., Ltd. (“UCDI” or the “Company”) reflects Urumqi Economic and Technological Development Zone (“Urumqi ETDZ”) 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 the local government’s capacity to provide support reflects Urumqi ETDZ’s strong economic and fiscal position in Urumqi City, with good fiscal stability and fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key position in the state-owned assets operation and infrastructure construction of Urumqi ETDZ; (2) good track record of receiving government support; and (3) good access to multiple financing channels.

However, the Company’s rating is constrained by its (1) high exposure to commercial activities with large capital expenditure; and (2) high debt leverage and moderate asset liquidity.

The stable outlook on UCDI’s rating reflects our expectation that the Company will maintain its most important policy role in Urumqi ETDZ. We also expect that the Company will continue to receive ongoing government support.

## Rating Drivers

- Key position in the state-owned assets operation and infrastructure construction of Urumqi ETDZ
- High exposure to commercial activities with large capital expenditure
- High debt leverage and moderate asset liquidity
- Good access to multiple financing channels
- Good track record of receiving government support

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially decrease in its 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 decrease in regional importance, materially decrease in government payments, or deteriorated debt management.

## Key Indicators

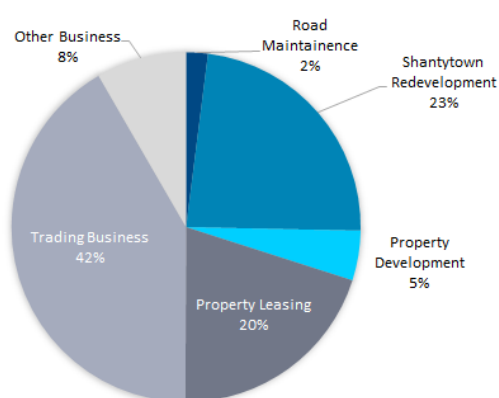
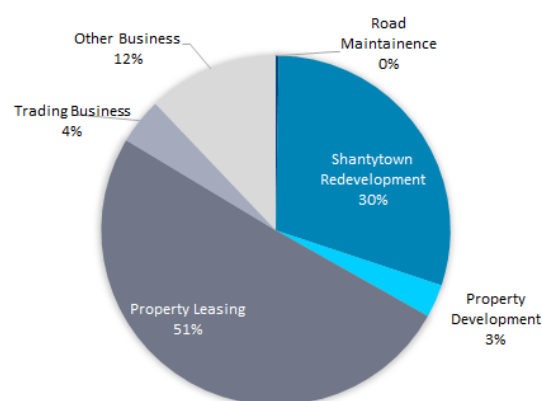
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	29.2	31.5	35.1	37.2
Total Equity (RMB billion)	9.5	10.2	13.2	13.1
Total Revenue (RMB billion)	1.2	1.9	1.5	0.7
Total Debt/Total Capital (%)	62.8	64.2	59.3	63.4

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## Corporate Profile

Founded in 1992, UCDI is an important local infrastructure investment and financing company ("LIIFC") in Urumqi ETDZ. The Company mainly engages in landscape maintenance, shantytown redevelopment, as well as part of the infrastructure construction in Urumqi ETDZ. It is also engaged in commercial businesses such as property development, property leasing, and trading. The Company is wholly owned and directly controlled by Urumqi ETDZ State-owned Assets Supervision and Administration Commission.

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe Urumqi ETDZ Government has a very strong capacity to provide support given its strong economic and fiscal position in Urumqi City, with good fiscal stability and fiscal self-sufficiency.

Xinjiang Uygur Autonomous Region is in the north-eastern part of China, and its economic growth and political status leads in China. In 2022, the gross regional product ("GRP") of the Xinjiang Uygur Autonomous Region was RMB1.8 trillion, with a year-on-year ("YoY") increase of 3.2%. In 2022, its general budgetary revenue reached RMB0.2 trillion, with tax taking up 64.7% of general budgetary revenue.

Urumqi is the capital city of the Xinjiang Uygur Autonomous Region as the political, economic, culture and technological center of Xinjiang. Located in the geographical center of the Asian continent, Urumqi is the bridgehead of the western section of the New Eurasian Continental Bridge in China and an important gateway for China to open to the west, with an important strategic position. With traditional industries like electric power industry, petroleum industry, non-metallic mineral products industry, chemical industry growing steadily and cutting-edge industries like software and semi-conductor developing fast, Urumqi's economy grew steadily in these years. In 2022, Urumqi City's GRP increased by 0.3% YoY to RMB389.3 billion, ranking 1<sup>st</sup> among all cities in Xinjiang. Affected by the pandemic, the Urumqi Municipal Government's general budgetary revenue decreased from RMB37.8 billion in 2021 to RMB31.5 billion in 2022. Its fiscal balance ratio was moderate at 69% in 2022. However, Urumqi City's debt profile is modest. In 2022, its outstanding governmental debt amounted to RMB140 billion, equivalent to 36% of its GRP.

**Exhibit 3. Key economic and fiscal indicators of Urumqi City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	333.7	369.2	389.3
GRP Growth (%)	0.3	6.1	0.3
General Budgetary Revenue (RMB billion)	39.3	37.8	31.5
General Budgetary Expenditure (RMB billion)	53.7	42.0	45.6
Local Government Debt (RMB billion)	118.9	133.5	140.1

Source: Statistics Bureau of Urumqi City, CCXAP research

Urumqi ETDZ is the first state-level development zone in Xinjiang approved by the State Council in August 1994. In January 2011, it was merged with Toutunhe District, an administrative district under the jurisdiction of Urumqi,

implementing the "integration of district and administration" policy and becoming a national-level development zone. Urumqi ETDZ carries construction of the core area of the Silk Road Economic Belt and plays important role in connecting Inner China and Eurasia economy. In recent years, Urumqi ETDZ has formed some pillar industries like wind power industry, metallurgical industry, and beverage industry cluster.

From 2020 to 2022, the GRP of Urumqi ETDZ increased from RMB55.6 billion to RMB64.0 billion. Affected by the disruptions of the pandemic, Urumqi ETDZ's general budgetary revenue decreased from RMB7.8 billion in 2020 to RMB4.1 billion in 2022. Urumqi ETDZ's general budgetary revenue has high quality, with tax income accounting for 73.1% of total general budgetary revenue in 2022. Besides, Urumqi ETDZ also has excellent fiscal self-sufficiency, with fiscal balance ratio of 160.2% in 2022. Urumqi ETDZ reported outstanding governmental debt of RMB22.1 billion at end-2022, representing 36% of GRP.

#### **Exhibit 4. Key economic and fiscal indicators of Urumqi ETDZ**

	2020FY	2021FY	2022FY
GRP (RMB billion)	55.6	63.4	64.0
GRP Growth (%)	0.6	6.6	-0.5
General Budgetary Revenue (RMB billion)	7.8	6.9	4.1
General Budgetary Expenditure (RMB billion)	6.9	3.7	2.6
Local Government Debt (RMB billion)	19.5	20.6	22.1

Source: Statistics Bureau of Urumqi ETDZ, CCXAP research

### **Government's Willingness to Provide Support**

#### **Key position in the state-owned assets operation and infrastructure construction of Urumqi ETDZ**

There are three primary LIIFCs in Urumqi ETDZ, namely UCIDI, UETD Construction Investment Development (Group) Co., Ltd. ("UCID") and UETD High-speed Railway Hub Comprehensive Investment (Group) Co., Ltd. ("UHRI"), each with clear positioning in the development of the region. UCID is responsible for agent construction and primary land development in Urumqi ETDZ, while UHRI only operates in Urumqi High-speed Railway Hub of Urumqi ETDZ. As an infrastructure construction and state-owned assets operation entity in Urumqi ETDZ, UCIDI has participated in landscape maintenance, shantytown redevelopment as well as part of municipal infrastructure construction within the Urumqi ETDZ. At present, it has focused on industrial park development and state-owned assets operation, with critical role to the growth and development of Urumqi EDTZ. Considering UCIDI's key position in state-owned assets operation and infrastructure construction in Urumqi ETDZ, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

Designated by the Urumqi ETDZ authorities, UCIDI is responsible for the landscape maintenance work of the green areas and municipal roads within the Urumqi ETDZ, with strong regional position. The Company enters into annual landscape maintenance contracts at the beginning of each year, and the Urumqi ETDZ authorities make payments to the Company at the end of the contract period. In addition, UCIDI also undertook construction of municipal infrastructure projects in the Urumqi ETDZ. As of 31 March 2023, it had invested RMB2.0 billion into the completed major municipal infrastructure projects, for which the Company has been granted the exclusive right to provide landscape maintenance services.

Entrusted by the Urumqi ETDZ Management Committee, UCIDI conducts shantytown redevelopment projects under government purchase model. The Company will conduct redevelopment work with self-raised funds, while the local government will provide start-up capital to support the financing of the projects. Upon completion of

projects, the local government will purchase the projects and the purchase payments are made in 11 installments. As of 31 March 2023, UCDI had completed three shantytown redevelopment projects, with total investment of RMB2.2 billion and collected government payments of RMB1.3 billion. However, this public policy business is subject to uncertainty as there are no related projects under construction or planning.

### **High exposure to commercial activities with large capital expenditure**

With its business focus evolved from infrastructure construction to the state-owned assets operation and industrial park development, UCDI's exposure to commercial activities is high, with its commercial assets accounting for more than 30% of total asset as of 31 March 2023. The market-oriented businesses mainly include property leasing, industrial park development, property development, and trading businesses. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

UCDI plays an important role in the operation of state-owned assets in Urumqi ETDZ, and owns high-quality leasable properties in the region, including office buildings, industrial parks, community office space, medical office space, carparks and basements. The Company has derived stable rental income by leasing its properties to state-owned enterprises and government departments in Urumqi ETDZ, with lease term of one to ten years. As of 31 March 2023, the Company's leasable properties had a gross floor area of 847,500 square meters. Due to the rent reduction during the pandemic, the revenue from property leasing decreased by 8.0% YoY to RMB311.0 million in 2022, with high gross profit margin of 88.5%. The Company has also participated in industrial park development by special bond funds and self-raised funds and these industrial parks will be leased or sold for fund balance. As of 31 March 2023, it had 15 industrial park projects under development, with total estimated investment of RMB18.0 billion and uninvested amount of RMB10.7 billion, exerting great capital expenditure pressure.

As a key entity with initiative to attract investment in the Urumqi ETDZ, UCDI is engaged in development of policy housing for the enterprises settled in the Urumqi ETDZ. It is also engaged in the development of commercial properties in the Urumqi ETDZ for sale to the general public. The Company still has large amounts of construction projects in the pipeline, causing high financing pressure. As of 31 March 2023, the Company had 6 real estate projects under construction, with total estimated investment of RMB3.5 billion and uninvested amount of RMB1.2 billion. However, the income from property development is susceptible to regional real estate market and investment attraction, causing fluctuations in revenue. In 2022, the revenue from property development decreased by 97.2% YoY to RMB71.0 million.

UCDI is also engaged in trading business, with diversified trading products such as security-related products, construction materials, telecommunication products, cotton products, and commodities. The trading business provides supplemental income to the Company. In 2022, the Company's trading business revenue amounted to RMB0.6 billion, with low profit margin at 3.6%. The commercial risk is low, given the risk management measure. The Company usually requires customers to provide collateral for the purchase of goods and enters into buyback arrangement with upstream suppliers, thereby reducing the risk of default by both its customers and suppliers.

The Company's other businesses include cultural and sports-related services, operation of carparks, property management services. However, both the asset scale and the income scale of these businesses are small, making less contribution to the Company's revenue and profit.

### **High debt leverage and moderate asset liquidity**

With the increasing financing demand from the construction projects, UCDI's debt leverage has reached a high level. As of 31 March 2023, the Company's adjusted total debt amounted to RMB22.7 billion, with high total capitalization ratio of 68.3%. Nonetheless, the Company has a reasonable debt maturity structure. As of 31 March 2023, its short-term debt accounted for 18.1% of total debt. With considerable industrial park development projects under construction, the Company will continue to rely on external financing to meet its future capital needs. As a result, we expect that its debt leverage will remain high in the next 12 to 18 months.

UCDI's asset liquidity is moderate, which may undermine its financing flexibility. The Company's assets mainly consist of inventories, investment property, and construction in progress, all with low liquidity. The inventories are development costs from property development projects, while the investment properties and construction in progress are mainly completed leasable properties and investment costs for industrial park projects, totally accounting for about 60.4% of total asset at 31 March 2023. Nevertheless, these leasable properties can provide stable rental income to the Company.

### **Good access to multiple financing channels**

UCDI's good access to multiple financing channels is reflected by its sufficient credit facilities and access to capital markets. The Company has good relationship with multiple commercial banks and policy banks in China, such as Agricultural Development Bank of China and China Development Bank. As of 31 March 2023, the Company's total credit facilities were RMB13.1 billion, of which the unutilized portion was RMB4.7 billion. UCDI also has good access to capital markets and have issued both onshore and offshore bonds. From 2020 to mid-2023, the Company had raised RMB13.9 billion and USD60 million through corporate bonds, PPNs, MTNs, SCPs and offshore bonds. In addition, UCDI has low exposure to non-standard financing, which accounted for 2.1% of its total debts.

### **Good track record of receiving government support**

UCDI has a good track record of receiving support from local government in terms of project payments, financial subsidies, and government specific bond funds. Pursuant to the payment arrangement under the Government Purchase Agreement, the Company has regularly received service fees for shantytown redevelopment from the local government, totaling RMB1.3 billion at end-2023Q1. From 2020 to 2023Q1, UCDI received financial subsidies of RMB183.0 million from the local government. As 31 March 2023, the Company received government specific bond funds of RMB1.9 billion for the industrial park development projects. Considering its pivotal and strategic role in the continuous development of the Urumqi ETDZ, we expect that the Company will continue to receive strong support from the local government in the next two to three years.

### **Low exposure to external guarantees, with manageable contingent liability risk**

UCDI has small exposure to external guarantees. As of 31 March 2023, UCDI's external guarantees amounted to RMB640.0 million, accounting for 6.1% of its net assets. Most of external guarantees are provided to the joint venture enterprises in Urumqi ETDZ, which have moderate credit risks. With sufficient counter guarantee measures, we believe the Company's contingent liability risk is manageable.

## **ESG Considerations**

UCDI bears environmental risks through its industrial park and property development projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

UCDI is also exposed to social risks as key provider of major services in Urumqi ETDZ. Demographic changes, public awareness and social priorities shape government's target for UCDI, or affect the government's propensity to support the Company.

UCDI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

### **Structural Consideration**

UCDI's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in state-owned assets operation and infrastructure construction in Urumqi ETDZ, thereby mitigating any differences in an expected loss that could result from structural subordination.

### **Rating Methodology**

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

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