

## Credit Opinion

12 June 2024

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

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## Zhuzhou Geckor Group Company Ltd

### Surveillance credit rating report

### CCXAP upgrades Zhuzhou Geckor Group Company Ltd.'s long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

CCXAP has upgraded the long-term credit rating of Zhuzhou Geckor Group Company Ltd. ("Zhuzhou Geckor" or the "Company") to BBB<sub>g</sub> from BBB<sub>g</sub><sup>-</sup>, with stable outlook. The rating upgrade is based on the robust industrial development of Zhuzhou High-tech Zone, which strengthens the local government's capacity to support the Company. It also reflects the Company's strategic importance in the regional development of Zhuzhou High-tech Zone.

The BBB<sub>g</sub> long-term credit rating of Zhuzhou Geckor Group Company Ltd reflects (1) the local government's strong capacity to provide support, and (2) the local government's 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 Zhuzhou High-tech Zone's status as the only state-level High-tech Zone in Zhuzhou City, with ongoing economic growth and good fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant market position in the primary land development of Zhuzhou High-tech Zone, with high business sustainability and sufficient land resources; and (2) good track record of receiving government support. However, the rating is constrained by the Company's (1) medium exposure to commercial risks, subject to the market conditions in Zhuzhou High-tech Zone; and (2) high debt leverage and moderate asset liquidity.

The stable outlook on Zhuzhou Geckor's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its monopoly market position in Zhuzhou High-tech Zone.

## Rating Drivers

- Monopoly market position in the primary land development of Zhuzhou High-tech Zone, with high business sustainability and sufficient land resources
- Good track record of receiving government support
- Medium exposure to commercial risks, subject to the market conditions in Zhuzhou High-tech Zone
- High debt leverage but with improving debt structure
- Moderate asset liquidity

## 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 support, such as improvement in debt management or decrease in 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 support, such as decrease in government payments or weakened funding capabilities.

## Key Indicators

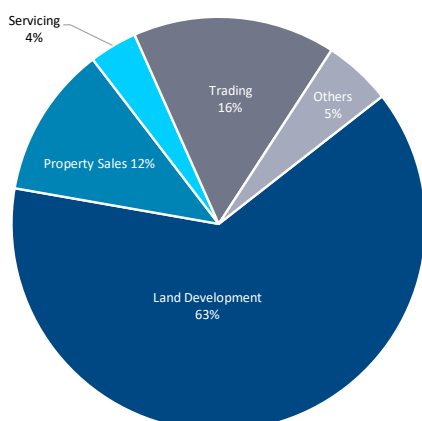
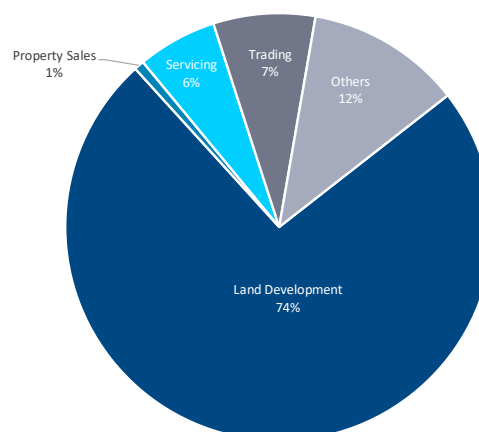
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	89.4	91.8	95.7	96.5
Total Equity (RMB billion)	36.1	33.1	32.4	32.4
Total Revenue (RMB billion)	6.0	6.1	6.1	0.8
Total Debt/Total Capital (%)	57.5	59.7	60.4	61.0

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

Source: CCXAP research, Company data

## Corporate Profile

Established in 1999, Zhuzhou Geckor is the sole primary land developer for the Hexi Demonstration Park of Zhuzhou High-tech Zone. Positioned to support the industrialization and urbanization of Zhuzhou High-tech Zone, the Company is mainly responsible for primary land development, property development and management, and supporting services. As of 31 March 2024, Hunan Geckor Investment Holding Group Co., Ltd. held 90% of the Company's shares and Hunan State-owned Investment Management Co., Ltd. held the remaining 10% of the shares. The Administration Committee of Zhuzhou High-tech Zone is the ultimate controlling shareholder of the Company.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding and organization chart as of 31 March 2024**

Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe the local government has a relatively strong capacity to provide support given its status as the only state-level High-tech Zone in Zhuzhou City, with ongoing economic growth and good fiscal balance.

Located in the east of Hunan Province, Zhuzhou City is a key city in the Changsha-Zhuzhou-Xiangtan Economic Integration Area. It is also one of the most important transportation hubs in central China, with the Beijing-Guangzhou Railway and the Shanghai-Kunming Railway lines intersecting in the city. The pillar industries in Zhuzhou have formed a “3+5” industrial layout, including core industries of rail transportation, aviation, and automobile, and emerging industries of new energy, new materials, electronic information, bio-pharmaceutical, and environmental protection. In 2023, Zhuzhou City recorded gross regional product (“GRP”) of RMB366.8 billion, ranking 5<sup>th</sup> by GRP among 14 prefecture-level cities in Hunan Province, with a year-on-year (“YoY”) increase of 5.2%. The general budgetary revenue of Zhuzhou City increased slightly from RMB19.1 billion in 2022 to RMB19.2 billion in 2023, with tax income accounting for 72.1% of its fiscal revenue in 2023. However, Zhuzhou City’s fiscal balance is still weak, with the ratio of general budgetary revenue to general budgetary

expenditure being 32.5% in 2023. As of end-2023, the government debt balance of Zhuzhou was RMB118.0 billion, accounting for 32.2% of GRP.

#### Exhibit 4. Key Economic and Fiscal Indicators of Zhuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	342.0	361.7	366.8
GRP Growth (%)	8.3	4.5	5.2
General Budgetary Revenue (RMB billion)	18.0	19.1	19.2
General Budgetary Expenditure (RMB billion)	48.7	54.1	59.2
Local Government Debt (RMB billion)	90.6	101.4	118.0

Source: Statistic Bureau of Zhuzhou City, CCXAP research

Located on the west bank of the Xiang River in Zhuzhou, Zhuzhou High-tech Zone (Tianyuan District) was established in May 1992 and was approved as a state-level High-tech Zone in December 1992. It consists of four main industrial parks (namely Hexi Demonstration Park, Tianxin Industrial Park, Dongjiaduan Industrial Park, and Jinshan Science & Technology Industrial Park), with a total area of 327.6 square kilometers ("km<sup>2</sup>") and over 484 thousand permanent residents. At the moment, the local development is concentrated in Hexi Demonstration Park, which is the largest out of the four industrial parks. It has a total planning area of 66,236 mu (about 44 km<sup>2</sup>) that is split into five main industrial sub-parks.

Zhuzhou High-tech Zone has achieved robust industrial development in recent years. Since 2023, it has started the construction of the innovation park in the core area of "China Power Valley", with the focus on introducing and cultivating relevant corporate R&D institutions, covering an area of 890 acres with a total investment of approximately RMB3 billion. Leveraging on the development of pillar industries such as auto parts, electronic information, and bio-pharmaceutical, Zhuzhou High-tech Zone has achieved ongoing economic growth. In 2023, GRP of Zhuzhou High-tech Zone increased by 5.9% YoY to RMB56.8 billion, and its general budgetary revenue amounted to RMB4.6 billion, with the proportion of tax revenue increasing to 88.3%. Besides, Zhuzhou High-tech Zone has good fiscal balance as reflected by its general budgetary revenue to general budgetary expenditure ratio of 101.5%. As of end-2023, the government debt balance in Zhuzhou High-tech Zone was RMB9.7 billion, accounting for 17.1% of GRP.

#### Exhibit 5. Key Economic and Fiscal Indicators of Zhuzhou High-tech Zone

	2021FY	2022FY	2023FY
GRP (RMB billion)	51.3	54.5	56.8
GRP Growth (%)	8.3	4.5	5.9
General Budgetary Revenue (RMB billion)	4.8	4.3	4.6
General Budgetary Expenditure (RMB billion)	5.5	5.2	4.6
Local Government Debt (RMB billion)	8.0	8.7	9.7

Source: Statistic Bureau of Zhuzhou High-tech Zone, CCXAP research

### Government Willingness to Provide Support

**Dominant market position in the primary land development of Zhuzhou High-tech Zone, with high business sustainability and sufficient land resources**

Zhuzhou Geckor is a dominant district-level investment and financing platform in Zhuzhou High-tech Zone operating under its holding Company Hunan Geckor Investment Holding Group Co., Ltd. The Company is

engaging in industrial park development and services, and urban and rural development through its subsidiaries, with a purpose to provide optimal conditions for attracting new investments. We believe that the Company's monopoly position in Zhuzhou High-tech Zone is unlikely to be replaced in the foreseeable future.

Commissioned by the Administration Committee of Zhuzhou High-tech Zone to undertake land acquisition and demolition, levelling, and road pavement, Zhuzhou Geckor is the sole primary land developer for Hexi Demonstration Park (including Tanyes Technology Park) of Zhuzhou High-tech Zone. Supported by its sufficient land projects in the pipeline, the sustainability of primary land development business is high. At present, the Company focuses on the land development in eight industrial sub-parks, with total area of 62.9 thousand mu. Nevertheless, they have exerted large capital expenditure pressure on the Company. As of 31 March 2024, the Company had invested RMB41.0 billion into the land projects under development, with uninvested amount of RMB1.4 billion. Besides, the Company had 5 land projects under planning, with planned investment amount of RMB2.5 billion. However, this business is susceptible to land policies and market conditions.

### **Medium exposure to commercial risks, subject to the market conditions in Zhuzhou High-tech Zone**

Zhuzhou Geckor's commercial businesses include sale and leasing of properties, property management and servicing, industrial investment, trading, and engineering construction, whose assets accounted for around 35% of total assets at end-2024Q1. As most of its commercial activities are still conducted under government guidance with an aim at promoting the industrialization development of Zhuzhou High-tech Zone, we believe the Company's commercial risk is manageable.

Zhuzhou Geckor has been engaged in construction of industrial plants, commercial properties, office buildings, and public rental housing, which are sold or leased to the settled enterprises and its employees to attract investment in Zhuzhou High-tech Zone. There are still large capital needs from the property construction projects in the pipeline, exerting certain expenditure pressure to the Company. As of 31 March 2024, Zhuzhou Geckor had 5 industrial plants under construction or planning, with estimated total investment of RMB2.4 billion and uninvested amount of RMB 861.0 million. Besides, the Company had 2 property projects under construction or planning, with estimated total investment of RMB1.0 billion and uninvested amount of RMB593.0 million. Furthermore, Zhuzhou Geckor had 1 office building under construction as of 31 March 2024, with estimated total investment of RMB486.0 million and RMB123.0 million to be invested in the next three years. However, the sale and leasing of the Company's properties are largely affected by the industrial development situations and investment promotion policies in Zhuzhou High-tech Zone. In 2023, the revenue from property sales decreased by 3.1% YoY to RMB727.7 million, while the revenue from property leasing decreased by 17.6% YoY to RMB172.2 million. To attract investment, the selling or leasing prices of these properties are generally lower than market prices, resulting in low profit margin. The local government will provide subsidies to the Company to cover any losses that have occurred, with subsidy for public rental housing of RMB3.4 million and subsidy for industrial park construction and operation of RMB60.0 million in 2023.

The Company is also responsible for the construction and development of public rental housing in the region, which mainly serves the employees of the attracted enterprises. The public rental housing business has played an important role in attracting talents and promoting investment in Zhuzhou High-tech Zone. As of 31 March 2024, Zhuzhou Geckor had completed 7 public rental housing projects, with total leasable area of 283.2 thousand square meters and leased area of 137.1 thousand square meters. However, these projects have long payback period. Besides, the Company had no public rental housing projects under construction or planning.

To support local industrial development, the Company has invested in Zhuzhou's "3+5" industrial system through the establishment of 7 industrial investment funds, with planned contribution of RMB6.9 billion and

contributed amount of RMB556.0 million, indicating large capital contribution pressure. The investment funds mainly focus on three major industries including rail transit, general aviation and new energy vehicles. The Company also plans to invest into the photovoltaics industries in the future. In addition, the industrial investment business is susceptible to local industrial development and investment promotion, with uncertain return and long payback period.

Zhuzhou Geckor has started its trading business since 2020, with trading products mainly including non-ferrous metals and LED lamps. The trading business provides supplementary income to the Company, accounting for about 16% of its total revenue in 2023. In addition, the concentration risk of the trading business is manageable as the sales from the top five customers accounted for 20.8% of the total sales and its procurement from top 5 suppliers accounted for only 14.8% of total procurement in 2024Q1.

Zhuzhou Geckor also involves property management, servicing, and scenic spot operation businesses. However, the income scale of these businesses is relatively small, making little contribution to the Company's revenue and profit.

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

Zhuzhou Geckor has a track record of receiving support from the local government in terms of subsidies, asset transfer, and capital injection. In 2020, The Administration Committee of Zhuzhou High-tech Zone has transferred the equity of Hunan Tianyi Group Co., Ltd to the Company, greatly expanding its business scope. From 2021 to 2024Q1, the Company had received government subsidies of over RMB520.0 million. Over the same period, it had been transferred assets of RMB51.4 million, including stations and elderly service centers. As the local government will make project payments after completion of land projects within two years, the Company regularly receives project payments from the local government. It has received the government's project payments of RMB37.8 billion and is expected to receive payments of about RMB9.9 billion from the completed projects in the next three years. Besides, the local government plans to transfer franchise for cultural and tourism resources to the Company, which will expand its business scope. We expect that the Company will continue to receive support from the local government given its important position in Zhuzhou High-tech Zone and close relationship with the local government.

### **Good access to funding with reliance on external financing**

Zhuzhou Geckor has a good access to funding. The Company has maintained good relationship with large domestic commercial banks and policy banks, like Bank of Changsha and China Development Bank. As of 31 March 2024, it had obtained total bank credit facilities of RMB55.5 billion, with the unutilized portion of RMB20.9 billion, indicating sufficient standby liquidity. The Company is also a frequent issuer in bond market. From 2021 to 2024Q1, the Company had issued various bond products, including CPs, MTNs and corporate bonds, raising RMB29.1 billion. Additionally, the Company also has offshore bonds with total outstanding amount of RMB363.0 million as of June 2024. However, the proportion of bond financing is relatively high, accounting for about 57.9% of its total debt at end-2024Q1, indicating that its financing may be susceptible to debt capital market. In addition, the Company's exposure to non-standard financing is manageable, accounting for about 10% of total debts. Benefiting from special refinancing bonds for debt reduction, the regional financing situations have improved significantly since the second half of 2023. However, considering that Zhuzhou Geckor has relatively high debt pressure and relies heavily on external financing, it is necessary to pay attention to the impact of changes in the financing policies.

### **High debt leverage but with improving debt structure**

Due to the increase in investment in construction projects, Zhuzhou Geckor's debt leverage is high. As of 31 March 2024, the Company's total debt increased to RMB50.7 billion compared with RMB48.8 billion at end-2023Q1, with high total capitalization ratio of 61%. Besides, due to the transferring out of some subsidiaries, Zhuzhou Geckor's equity has significant decreased. Nevertheless, its debt structure improved as the short-term debt ratio decreased from 40.0% at 2023Q1 to 28.6% at 2024Q1. We expect that its debt leverage will maintain at a high level given the large capital needs from land development, property development and investment funds.

### **Moderate asset liquidity**

Zhuzhou Geckor's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total assets are mainly inventories and investment properties with weak liquidity. As of 31 March 2024, the inventories mainly consisted of construction costs from the land and property development projects, accounting for 61.1% of total assets, while the investment properties mainly consisted of leased industrial plants and office buildings, accounting for 13.4% of total assets. Furthermore, as of 31 March 2024, the Company had pledged assets of RMB16.0 billion for loans, accounting for 16.6% of total assets.

### **ESG Considerations**

The Company is exposed to environmental risks because it has undertaken infrastructure construction and primary land development projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

In terms of social concerns, the Company plays a crucial role in the social welfare of Zhuzhou City by providing public housing and supporting services for enterprises settled in Zhuzhou High-tech Zone.

In terms of corporate governance, the Company has higher requirements in terms of daily operation management and control of its subsidiaries. It has established a series of supervision in investment and financing management, budget management, external guarantee, safety and management of subsidiaries.

### **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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