Credit Opinion

4 November 2025

Ratings	
Senior Unsecured Debt Rating	A_g-
Long-Term Credit Rating	A_g-
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Wuhan Gehua Group Co., Ltd.

Initial credit rating report

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

Summary

The A_g- long-term credit rating of Wuhan Gehua Group Co., Ltd. ("Gehua Group" or the "Company") reflects the local government's (1) 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 Wuhan East Lake New Technology Development Zone's ("East Lake NTDZ") capacity to provide support reflects its strong industrial foundations and steady revenue growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the key urban development entity in East Lake NTDZ; (2) good track record of receiving ongoing government payments; and (3) good access to diversified funding channels.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high debt leverage; and (3) medium contingent liability risk.

The stable outlook on Gehua Group'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 East Lake NTDZ for the next 12 to 18 months.

Rating Drivers

- Key urban development entity in East Lake NTDZ
- Medium exposure to commercial activities
- Good track record of receiving ongoing government payments
- High debt leverage with improved debt maturity structure
- Good access to diversified funding channels
- Medium contingent liability risk from external guarantees provided to local SOEs

Rating Sensitivities

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 deterioration in debt management.

Key Indicators

	2022FY	2023FY	2024FY	2025H1
Total Asset (RMB billion)	13.3	16.6	17.2	19.7
Total Equity (RMB billion)	3.7	4.7	4.9	4.9
Total Revenue (RMB million)	111.6	186.0	254.4	111.2
Total Debt/Total Capital (%)	68.0	66.9	65.6	70.6

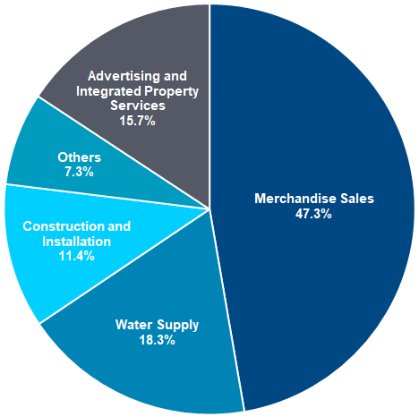
All ratios and figures are calculated using CCXAP's adjustments

Source: Company data, CCXAP research

Corporate Profile

Originally established in 1958, the Company has transformed from a large state-owned chemical producer into a key infrastructure development entity for East Lake NTDZ. It is now primarily responsible for area development, including land consolidation and infrastructure construction, within the approximately 24-square-kilometer Zuoling area of the zone. It also engages in commercial activities such as water supply, construction installation and merchandise sales. As of 30 June 2025, the Company was wholly owned and ultimate controlled by the Management Committee of East Lake NTDZ.

Exhibit 1. Revenue structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that East Lake NTDZ Committee has very strong capacity to provide support as reflected by its strong industrial foundations, with good economic growth and enhanced fiscal sustainability.

Hubei Province is at the center of the Yangtze River Economic Belt and is a natural link between the East and West regions' economies, with a solid foundation in different industries such as metallurgy, automobiles, chemicals, building materials, food, machinery manufacturing, textiles, electronics, and shipbuilding. Hubei Province is the seventh largest province in China by gross regional product ("GRP") in 2024, which reached RMB6.0 trillion with a year-on-year ("YoY") increase of 5.8%. Hubei Province has improved financial strength. Its general budgetary revenue increased from RMB369.2 billion in 2023 to RMB393.7 billion in 2024. The growth was primarily driven by Hubei Province's intensified efforts to optimize existing assets, boosting revenue from state-owned resource utilization and accelerating non-tax income growth. Its tax revenue experienced a slight decline, primarily due to economic slowdown, weak real estate market performance, and tax-fee reduction policies. Besides, Hubei Province's debt burden is relatively heavy, its direct government debt increased to RMB 1.9 trillion at end-2024, accounting for 21.0% of its GRP. The increase in debt was primarily attributable to Hubei Province taking the lead among 31 provinces in issuing local government bonds, with the raised funds being allocated to major construction projects and existing debt repayment to expand effective investment.

Exhibit 2. Key Economic and Fiscal Indicators of Hubei Province

	2022FY	2023FY	2024FY
GRP (RMB billion)	5,373.4	5,580.3	6,001.3
GRP Growth (%)	4.3	6.0	5.8
General Budgetary Revenue (RMB billion)	328.1	369.2	393.7
General Budgetary Expenditure (RMB billion)	862.4	929.6	997.4
Local Government Debt (RMB billion)	1,390.0	1,562.5	1,858.6

Source: Statistics Bureau of Hubei Province, CCXAP research

As the capital city of Hubei Province, Wuhan City is the most economically developed city in Hubei Province. Wuhan has breakthrough development of five key industries, including optoelectronics information, new energy and intelligent connected vehicles, life and health, high-end equipment, as well as Beidou. In addition, Wuhan City has a diversified economic structure, showing strong risk resistance capability. Thanks to industrial production and consumption recovery, the GRP of Wuhan City achieved RMB2.1 trillion in 2024, ranking first among all cities in Hubei Province and 9th among all prefecture-level cities in China, with a YoY increase of 5.2%. Wuhan Municipal Government's fiscal strength also improved along with the economic growth. Its general budgetary revenue increased from RMB160.1 billion in 2023 to RMB166.7 billion in 2024, of which tax income accounted for more than 70%. Besides, Wuhan City has a good fiscal balance, with a general budgetary revenue to general budgetary expenditure ratio of around 70.0% on average over the past three years. However, Wuhan Municipal Government's debt burden was growing rapidly with an outstanding direct government debt of RMB780.6 billion at end-2024, accounting for 37.0% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Wuhan City

	2022FY	2023FY	2024FY
GRP (RMB billion)	1,886.6	2,001.2	2,110.6
GRP Growth (%)	4.0	5.7	5.2
General Budgetary Revenue (RMB billion)	150.5	160.1	166.7
General Budgetary Expenditure (RMB billion)	222.3	220.4	248.1
Local Government Debt (RMB billion)	629.5	684.6	780.6

Source: Statistics Bureau of Wuhan City, CCXAP research

East Lake NTDZ, known as "Optics Valley of China," is a national-level high-tech zone with strong industrial foundations and policy support. It has developed a modern industrial structure centered on optoelectronics information, alongside new anergy, biomedicine, intelligent manufacturing, and high-tech services. It has maintained steady revenue growth. From 2022 to 2024, its general budgetary revenue increased from RMB19.0 billion to RMB21.7 billion. Its revenue stability is good, with tax revenue accounting for over 85.0% of the total budget revenue over the same period. The fiscal self-sufficiency rate rose from 82.0% to 101.0%, indicating enhanced fiscal sustainability. However, its outstanding local government debt grew from RMB42.6 billion in 2022 to RMB62.9 billion in 2024, accounting for 19.7% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of East Lake NTDZ

	2022FY	2023FY	2024FY
GRP (RMB billion)	264.4	177.5	320.0
GRP Growth (%)	6.0	4.7	7.1
General Budgetary Revenue (RMB billion)	19.0	20.6	21.7
General Budgetary Expenditure (RMB billion)	23.2	20.7	21.5
Local Government Debt (RMB billion)	42.6	48.9	62.9

Source: Statistics Bureau of East Lake NTDZ, CCXAP research

Government's Willingness to Provide Support

Key urban development entity in East Lake NTDZ

As a key urban development entity in East Lake NTDZ, the Company is primarily responsible for the development and construction of the Zuoling area covering approximately 24 square kilometers. It plays a vital role in delivering various public infrastructure projects in the region, including land consolidation, municipal road networks construction, resettlement housing and comprehensive river rehabilitation projects.

The Company executes infrastructure projects under government agency model and recognizes construction management fee revenue at 0.4% to 2.0% of the finalized project investment. The funding sources include the shareholder's capital injection, fiscal funds, and government special bond funds. As of 30 June 2025, the Company had 6 projects under construction with a total planned investment of RMB6.7 billion, and uninvested amount of RMB3.6 billion. Besides, the Company had no major infrastructure projects under planning as of 30 June 2025.

The Company also participates in land consolidation business. According to land reserve agreements, the Company develops the Zuoling area of the zone, executing land acquisition and municipal construction with self-raised and external funds. Completed lands are transferred to the reserve center for sale, with development costs returned by reserve center. As of 30 June 2025, the Company had 5 major land consolidation projects under construction with total planned investment of RMB3.4 billion and uninvested amount of RMB1.0 billion. It also has 2 completed land consolidation projects with amounts of RMB293.9 million in investment, with received payments of RMB72 million. The business is susceptible to the progress of land transfer, with relatively prolonged project payments. Furthermore, the Company has no planned land consolidation projects. The sufficient ongoing construction projects can ensure good sustainability of the business.

In addition, the Company serves as the sole provider of water for production and daily life in the Zuoling area, providing water to high-end manufacturing factories under a government-regulated price. Primarily driven by increased water consumption from existing customers in the industrial parks, revenues of this business increased from RMB32.0 million in 2022 to RMB46.5 million in 2024, with robust gross margins of around 50.0%. This business received government subsidies totaling RMB0.2 million in 2023 and RMB0.4 million in 2024.

Medium exposure to commercial activities

Gehua Group's commercial businesses mainly include merchandise sales, and construction and installation. We consider the Company's exposure to commercial businesses to be medium, accounting for around 20% of its total assets.

The Company's merchandise sales business primarily includes trading of sand and gravel. The revenue from this business has significantly increased from RMB45.7 million in 2023 to RMB120.3 million in 2024, primarily driven by a substantial increase in sales volume as the industry gradually recovered. However, this business segment consistently reported gross losses, with gross margins of -1.6% in 2023, -3.5% in 2024, and -2.3% in 2025H1. This was mainly because the trading of sand and gravel was severely impacted by the real estate downturn and slowdown in infrastructure investment, resulting in sales revenue failed to cover fixed operating costs. Besides, the business is subject to certain concentration risk, as its top five customers accounted for 48.8% of the total revenue as of end-2024.

The Company's construction and installation business primarily involves undertaking supporting projects such as interior decoration, site grading, and plant relocation in the Zuoling area of the East Lake NTDZ. This segment generated total revenues of RMB66.0 million from 2023 to 2025H1. However, it demonstrated significant margin volatility, with gross margins fluctuating from 2.2% in 2023 to -6.5% in 2024 before recovering to 1.4% in 2025H1, reflecting substantial variations in project-level profitability. Overall, this business has a relatively small project pipeline and is susceptible to real estate market fluctuations, indicating uncertainties for its future revenue.

The Company's self-operated projects are strategically aligned with the core industrial clusters of the East Lake NTDZ. These initiatives play a vital role in driving regional industrial upgrading and fostering innovation. As of 30 June 2025, the Company mainly had 2 projects under construction, including an industrial park project and a talent apartment project, with a total planned investment of RMB1.5 billion and an uninvested amount of RMB1.0 billion. Both projects are on track to commence operations by 2026.

Good track record of receiving ongoing government payments

As a key infrastructure development entity in the East Lake NTDZ, the Company has a demonstrated track record of receiving financial support from its shareholders and government through capital injections, special bonds and fiscal subsidies. From 2022 to 2024, the Company received fiscal subsidies totally of RMB30.5 million. As of end of 2024, the Company received land cost refunds of RMB2.2 billion. Additionally, as of 30 June 2025, the Company’s paid-in capital reached RMB3.6 billion, reflecting sustained capital support from its shareholders. The Company also benefits from substantial government special bonds, with a total outstanding balance of RMB2.5 billion as of end-2024. These bonds are primarily designated for key infrastructure projects. Considering its strategic role in East Lake NTDZ, we expect the local government will provide ongoing support to the Company in the future.

High debt leverage, but with manageable short-term debt repayment pressure

With the increasing financing demand for the development projects, Gehua Group has a fast debt growth over the past three years. The Company’s adjusted total debt increased from RMB7.8 billion at end-2022 to RMB11.7 billion at mid-2025, with a high total capitalization ratio of 70.6%. Despite a rise in overall debt, the proportion of short-term debt decreased significantly to 9.8% at mid-2025 from 33.4% at end-2022, reflecting manageable short-term debt repayment pressure. Its cash-to-short-term debt ratio improved to 2.7x at mid-2025 from 0.2x at end-2022. Given that its projects in the pipeline rely on external financing, the debt burden is expected to continue to grow over the next 12-18 months.

In addition, the Company’s asset liquidity is weak, constrained by a substantial portion of less liquid assets. Its other non-current assets accounts for 55.3% of total assets in 2024. These primarily consist of area development and construction costs. The slow collection progress on these projects has resulted in certain capital occupation, which may undermine the Company’s financing flexibility.

Good access to diversified funding channels

Gehua Group maintains robust financing capabilities through both banking and capital market channels, supported by sufficient liquidity reserves. The Company has sufficient standby liquidity. As of 30 June 2025, it had obtained total credit facilities of RMB15.6 billion from diversified domestic policy banks and commercial banks, with an available amount of RMB1.9 billion. The Company also demonstrate strong access to debt capital markets. As of 30 June 2025, the Company had two outstanding onshore bonds of RMB2.5 billion, with an average rate of 3.6%. Additionally, the Company also has outstanding offshore bonds of RMB718.0 million. Besides, the Company has a low reliance on non-standard financing, accounting for less than 1.0% of total debt as of 30 June 2025.

Medium contingent liability risk from external guarantees provided to local SOEs

The Company is exposed to a medium contingent liabilities risk. As of 30 June 2025, the Company recorded an external guarantee amount of RMB2.1 billion, accounting for 42.2% of its total equity. Those guaranteed entities are the SOEs in East Lake NTDZ. The credit risk of the Company and other local SOEs might be heightened if one guaranteed entity suffers from credit issues. However, we believe the overall risk of contingent liabilities is manageable as the government is highly likely to provide the necessary support when needed.

ESG Considerations

Gehua Group assumes environmental risks through its urban infrastructure projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, Gehua Group has played a crucial role in the social welfare of East Lake NTDZ, by involving the construction of public projects.

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

Structural Consideration

Gehua Group's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic position in the development of East Lake NTDZ, 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).

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.

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