

## Credit Opinion

22 December 2023

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

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## Wuxi Urban Construction Development Group Co., Ltd.

### Initial credit rating report

### CCXAP assigns first-time long-term credit rating of A<sub>g</sub>+ to Wuxi Urban Construction Development Group Co., Ltd., with stable outlook

#### Summary

The A<sub>g</sub>+ long-term credit rating of Wuxi Urban Construction Development Group Co., Ltd. (“WXUC” or the “Company”) reflects the Wuxi Municipal Government’s very strong capacity to provide support, and 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 Wuxi City’s status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita gross regional product (“GRP”) in Jiangsu Province.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) dominant role in providing essential public policy services in Wuxi City, including public infrastructure projects, affordable housing and urban renewal projects; (2) solid track record of government payments; and (3) strong access to diversified funding.

However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities, especially in financial services; (2) moderate asset liquidity; and (3) medium level of contingent risk.

The stable outlook on WXUC’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company’s characteristics such as dominant role in providing essential public services in Wuxi City, are expected to remain stable over the next 12-18 months.

## Rating Drivers

- Dominant role in urban and rural projects and affordable housing construction in Wuxi City
- Medium risk exposure to commercial activities
- Solid track record of government payments
- Moderate asset liquidity
- Strong access to diversified funding
- Medium level of contingent risk

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability 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 a decrease in risk exposure to commercial activities and mitigated contingent risk.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance or deteriorated financing ability.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	106.7	123.3	67.1	75.1
Total Equity (RMB billion)	36.9	42.2	36.5	39.1
Total Revenue (RMB billion)	3.6	4.7	1.8	2.0
Total Debt/Total Capital (%)	60.2	61.3	37.2	40.5

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

Source: Company information, CCXAP research

## Corporate Profile

Founded in 2008, WXUC is the essential local urban and rural construction entity under the control of the Wuxi Municipal Government. As of 30 June 2023, WXUC was directly and wholly owned by the State-owned Assets Supervision and Administration Commission of Wuxi Municipal People's Government ("Wuxi SASAC"). In January 2022, Wuxi Taihu New City Development Group Co., Ltd. ("WXTH") was excluded from the scope of the Company's consolidated statements as entrusted voting rights from WXCD were reduced. At the same time, the local government transferred 49% stake of Wuxi Construction Development Investment Co., Ltd. ("WXCD") and 26% stake of Wuxi Environmental Protection Group Co., Ltd. ("WXEP") to the Company. WXUC's position as a comprehensive urban developer and operator remains unchanged. It is mainly responsible for the urban renewal and rural revitalization projects and is the sole affordable housing constructor in Wuxi City. Additionally, the Company is also engaged in commercial activities including property management, housing guarantees, commercial factoring and supply chain services business.

Exhibit 1. Revenue structure in 2022

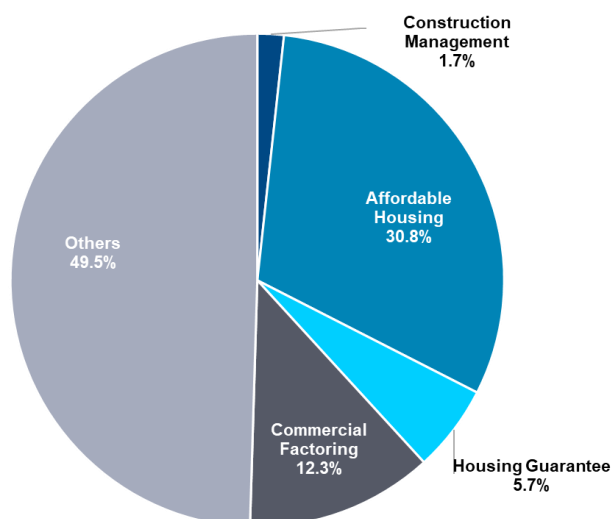
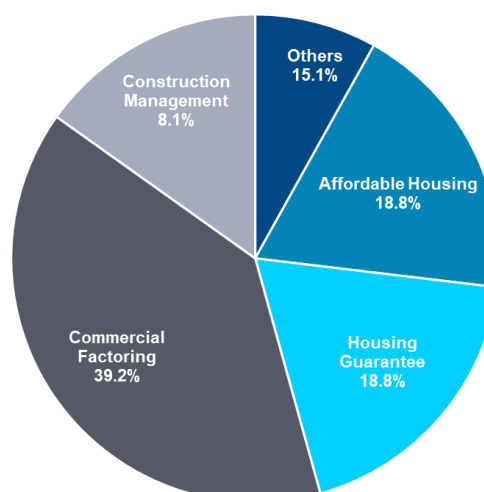


Exhibit 2. Gross profit structure in 2022



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Wuxi Municipal Government has a very strong capacity to provide support to the Company, given its status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita GRP of RMB 198,404 in Jiangsu Province.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by GRP, after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country. In the first three quarters of 2023, Jiangsu Province achieved GRP of RMB9.3 trillion with a YoY increase of 5.8%.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's economy is relatively strong with the third highest GRP at the prefectural level in Jiangsu Province for more than 5 consecutive years. In 2022, it recorded a GRP of RMB1.5 trillion with a YoY growth rate of 3.0%. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry, which support the economic development and fiscal strength of the city. Wuxi City's fiscal profile is characterized by high fiscal sufficiency and a strong revenue-generating ability. During the past three years, its general budgetary revenue exceeded RMB100 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of above 80%. As of 31 December 2022, the local government's outstanding debt amounted to RMB187.4 billion, accounting for 12.6% of the GRP, which is one of the lowest among the province. In the first three quarters of 2023, Wuxi City achieved a GRP of RMB1.1 trillion with a YoY increase of 5.8%.

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

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,237.0	1,400.3	1,485.1
GRP Growth (%)	3.7	8.8	3.0
General Budgetary Revenue (RMB billion)	107.6	120.1	113.3
General Budgetary Expenditure (RMB billion)	121.5	135.8	136.6
Local Government Debt (RMB billion)	142.1	160.8	187.4

Source: Statistics Bureau of Wuxi City, CCXAP research

**Government's Willingness to Provide Support****Dominant role in urban and rural projects and affordable housing construction in Wuxi City**

Wuxi City is one of the well-developed cities in Jiangsu Province and there are several state-owned enterprises ("SOEs") under the Wuxi Municipal Government with different positions to provide essential urban services and promote economic development. After the reorganization in 2022, WXUC remains as a comprehensive urban and rural developer and operator, mainly responsible for urban and rural construction projects, affordable housing construction and other functions in the city. Its strategic planning and development have been aligned with the local government's economic and social policies. WXTX is an important entity for investment and financing, construction and management in Wuxi Economic Development Zone (Taihu New City), while WXCD is an important entity for infrastructure construction and industrial services in Wuxi City.

Mandated by the local government, WXUC is the sole prefectural-level entity that carries out affordable housing construction projects in Wuxi City. The land of related construction projects is allocated by the government, while the construction funds are raised by the Company itself. The Company has provided various types of affordable housing including economically affordable housing, low-cost rental housing and mutual-property right housing. As of 30 June 2023, the Company had completed economically affordable housing projects including two major projects, Dongjing and Maowan projects, with a total investment of RMB6.1 billion. The Company sells these economically affordable housing to eligible low-income families in the city at prices guided by the local government. Part of this economically affordable housing is approved to sell to relocated households related to the reconstruction of dangerous and old house projects in Liangxi District. As of 30 June 2023, the Company had three major mutual-property right housing projects under construction with a total investment of RMB2.7 billion and outstanding investment of RMB1.7 billion. At the same time, the Company is also responsible for the demolition and reconstruction of dilapidated housing in the urban shantytowns and selling them to the relocated households in the region. The related land will be arranged to be sold through listing transfer by the local government after the preliminary demolition is completed and the local government is responsible for balancing the investment from the Company. As of 30 June 2023, there were two projects located in Liangxi District with a total investment of RMB2.5 billion under construction.

WXUC conducts urban construction in Wuxi City mainly through agent management model such major projects as the subsidiary hospital of Jiangnan University, the Wuxi Fifth People's Hospital, and the Wuxi campus of Southeast University. The Company signs the agent construction and management contract with the entrusting party (mainly the related administrative public institutions in Wuxi City) and is responsible for the management of projects, while the project funds are from the entrusting party and paid based on the project progress. WXUC charges the agent construction management fees, which are generally 0.7%-1.5% of the total project cost. As of 30 June 2023, the Company has managed main agent construction projects with a total investment of RMB9.2 billion, which also supports good sustainability of construction management business.

### **Medium risk exposure to commercial activities**

WXUC has gradually penetrated into different types of commercial activities in recent years such as housing guarantees, commercial factoring and supply chain services business in addition to its construction management and affordable housing business, which are complementary to its primary policy function. However, these businesses would pose the Company to medium business risks that require prudent risk control.

WXUC's housing guarantee and commercial factoring businesses are the main sources of profits, given the high gross profit margin. Wuxi Housing Financing Guarantee Co., Ltd (“WXFG”), the subsidiary responsible for the Company’s housing guarantees business is the largest state-owned guarantee company and the sole provident fund housing loan guarantee institution in Wuxi City. Wuxi Housing Provident Fund Management Center (“Wuxi PFMC”) signs the cooperate arrangements with the Company and purchases the loan guarantee service provided by the Company at the price of RMB1,000 per loan. Meanwhile, if the applicants are also involved in commercial housing loans, the Company would cooperate with commercial banks in Wuxi City to carry out the guarantee business of the portfolio loans and charge the guarantee fees from the bank. The Company maintained a low compensation rate in recent years. However, the demand for housing guarantees would fluctuate with the property market conditions and the credit quality of applicants may deteriorate during the downturn of the macroeconomic cycle.

WXUC’s subsidiary focuses on the engineering factoring and supply chain. The seller applies for factoring funds through transferring receivables to the Company and receives factoring funds equivalent to generally 70% or 80% of the transferred receivables. The revenue from the commercial factoring business has grown steadily over the past three years. However, factoring receivables in the Company's accounts receivable are relatively concentrated, mainly including central and local state-owned enterprises.

In addition, the Company started the supply chain business after the acquisition of a trading subsidiary in 2022, mainly including steel trading and supply chain services. The supply chain business has developed to be the largest contribution to the revenue, accounting for more than 25%, but has a minimal margin profit of less than 2%. Its upstream and downstream customers are highly concentrated, mainly including the China State Construction Engineering Corporation Ltd.'s affiliated companies.

### **Solid track record of receiving government payments**

WXUC has a track record of receiving government cash payments in the form of payment for urban construction projects, government funds allocation, operating subsidies and capital injections. During 2020-22, the Company received government subsidies of around RMB23 million. In 2022, the subsidies decreased as the WXTH was no longer included in the scope of WXUC’s consolidated financial statements. The Company also received government payment for urban construction according to the construction process, additional management fees as profit depends on project types and special funds for affordable housing projects.

Besides the government cash support, WXUC also owns a portfolio of large-scale state-owned enterprises that generated relatively large investment income in 2022. In 2022, the government transferred 49% shares of WXCD and 26% shares of WXEP to the Company thus the capital surplus increased by around RMB13.8 billion.

Given WXUC’s relatively large project under construction, the Company is expected to receive ongoing government payment under the agent construction management model. We also expect WXUC to continue undertaking public projects in Wuxi City considering its solid track record and strong positions in Wuxi City. However, the scale mostly depends on the government’s budgetary arrangement and urban development plans.

### **Moderate asset liquidity**

The reorganization of WXTH along with the transfer of WXCD and WXEP led to material effects on WXUC's asset structure in 2022. At the end of 2022, WXUC's total assets decreased by 45.6% to RMB67.1 billion from RMB123.3 billion at year-end 2021. The inventories, other receivables, cash, investment properties and construction in progress decreased the most among the Company's assets, while the long-term equity investments increased sharply to RMB 29.7 billion, accounting for 44.3% of the total assets at year-end 2022. However, its asset liquidity remained moderate with inventories and other receivables accounting for 34.5% of total assets as of 30 September 2023. Inventories were mainly construction costs of projects with long settlement periods.

Additionally, WXUC's financial leverage improved after reorganization. At the year-end 2022, its total capitalization ratio, measured as total debt over total assets, improved to 37.2% from 61.3% at the year-end 2021. At the same time, the total debts of WXUC decreased by 67.7% YoY to RMB21.6 billion from RMB67.0 billion at year-end 2021. Since 2023, the Company's project construction has accelerated and the financing needs made the total capitalization ratio increase to 40.5% and total debt increase to RMB26.7 billion as of 30 September 2023. We expect WXUC to raise additional debt to support its investment and working capital requirements and its debt leverage to increase in the next 12-18 months.

### **Strong access to diversified funding**

WXUC had a cash balance of RMB3.0 billion as of 30 September 2023, which just covers around 63% of its short-term debt of RMB4.7 billion. We expect WXUC to be able to refinance most of its short-term debt because of its status as the dominant SOE in Wuxi City and strong access to diversified funding.

WXUC has strong banking relationships and good access to high-quality debt funding. Its primary funding sources are major Chinese banks and commercial banks, and the public bond market, which collectively accounted for around 83% of its debt as of 30 September 2023. As of 30 September 2023, it had obtained total credit facilities from banks of RMB56.7 billion with an undrawn amount of RMB39.9 billion. The Company also has a good track record of fund-raising activities in the capital market with low credit spreads over the past 24 months. For example, in March 2023, the Company raised RMB1.5 billion via a tranche of five-year MTN with a coupon rate of 3.42%. As an essential urban construction entity in Wuxi City, the Company is expected to benefit from the good financial environment of the city, which is one of the well-developed cities in China with strong economic strengths.

### **Medium level of contingent risk**

WXUC has moderate contingent risks because external guarantees accounted for 21.3% of its total reported equity as of 30 June 2023. All these guarantees are provided to other SOEs in Wuxi City. The two largest counterparties were Wuxi Caitong Financial Leasing Co., Ltd., an important financial subsidiary under WXCD, and WXTH, an SOE responsible for the infrastructure construction projects in central Taihu New Town, respectively. We expect the Wuxi Municipal Government to have sufficient fiscal and financial resources and to step in to coordinate if any SOEs with debt guaranteed by the Company are in financial distress.

## **ESG Considerations**

WXUC faces environmental risks because it has undertaken infrastructure construction and affordable housing construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company is also exposed to social risks due to its role as a public services provider. Demographic changes, public awareness and social priorities shape the government's target for WXUC or affect the government's propensity to support the Company.

WXUC's governance considerations are also material as the Company is subject to oversight by the Wuxi City's Government and must meet several reporting requirements, reflecting its public policy role and status as a government-owned entity.

## Rating Methodology

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

## Appendix

### Exhibit 4. Peer Comparison

	Wuxi Urban Construction Development Group Co., Ltd.	Wuxi Construction and Development Investment
Long-Term Credit Rating	A <sub>g</sub> +	A <sub>g</sub> +
Shareholder	Wuxi SASAC (100%)	Wuxi SASAC (51.18%) and WXUC (48.82%)
Positioning	Key entity in urban and rural construction and the sole entity for affordable housing in Wuxi City	Key entity for infrastructure construction, and industrial services in Wuxi City
Total Asset (RMB billion)	67.1	87.9
Total Equity (RMB billion)	36.5	27.9
Total Revenue (RMB billion)	1.8	4.4
Total Debt/Total Capital (%)	37.2	62.5

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: Company information, CCXAP research

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