

Zhengzhou Urban Construction Investment Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Government
Financing Vehicle	
Date	14 July 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘A-’ global scale Long-term Issuer and Issuance Credit Rating of Zhengzhou Urban Construction Investment Group Co., Ltd. (“ZCC”). Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that Henan’s Zhengzhou municipal government would provide strong support to ZCC if needed. This mainly considers the Zhengzhou municipal government’s full ownership of ZCC, the high strategic importance of ZCC to Zhengzhou in the municipal infrastructure construction and maintenance, and the strong linkage between the Zhengzhou municipal government and ZCC, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Zhengzhou municipal government may face significant negative impact on its reputation and business and financing activities should ZCC encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that ZCC’s strategic importance would remain intact while the Zhengzhou municipal government will continue to ensure ZCC’s stable operation.

Rating Rationale

Zhengzhou Government’s Full Ownership: The Zhengzhou municipal government has 100% indirect ownership of ZCC via the State-owned Assets Supervision and Administration Commission of Zhengzhou (“Zhengzhou SASAC”) which is appointed by the government to supervise state-owned entities. Zhengzhou SASAC is the only shareholder with 100% ownership through its fully-owned Zhengzhou Urban Development Group Co., Ltd (formerly known as Zhengzhou Real Estate Group Co., Ltd.) and the Zhengzhou municipal government is the ultimate controller.

High Strategic Importance: ZCC is one of Zhengzhou’s major investment and financing platforms and has undertaken various businesses including municipal infrastructure construction and maintenance, and commodity trading to support the economic development in Zhengzhou. ZCC has extended its infrastructure project scope from roads and bridges to shantytown renovation, public service facilities, and ecological and environmental governance.

Government Supervision and Strategic Alignment: The Zhengzhou municipal government and Zhengzhou SASAC have strong control and supervision over ZCC, including control of the board of directors and the supervisory committee, senior management appointments, and major strategic, investment and financing planning. ZCC’s business operation and development have been aligned with the government’s economic and social policies. As one of the national central cities in the central region of China, Zhengzhou has devoted to optimise its economic structure and strengthen the transportation connections and logistic services to promote urban and rural development.

Key Figures of Zhengzhou and ZCC

(RMB billion)	2021	2022
Zhengzhou		
GDP	1,269.1	1,293.5
GDP growth rate (%)	4.7	1.0
Budgetary revenue	122.4	113.0
Government fund	89.6	52.1
Transfer payment	45.7	14.2
Budgetary expenditure	162.4	144.8
ZCC		
Assets	47.6	49.9
Equity	19.0	19.0
Revenue	1.2	0.8

Source: Zhengzhou Bureau of Statistics, Zhengzhou Finance Bureau, ZCC and Lianhe Global’s calculations

Analysts

Toni Ho, CFA, FRM
 (852) 3462 9578
toni.ho@lhratingsglobal.com

Stan Ho, CESGA
 (852) 3462 9568
stan.ho@lhratingsglobal.com

Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

Ongoing Government Support: ZZC has received capital and asset injections from the Zhengzhou government and related government entities. The injections include road maintenance right and municipal infrastructure such as roads and bridges. The Zhengzhou Finance Bureau has also supported ZZC's operations through various forms of cooperation, such as government procurement of services and public-private partnership projects.

Zhengzhou's Economy and Fiscal Condition: Zhengzhou's GDP recorded RMB1293.5 billion in 2022, representing a year-over-year growth rate of 1.0%. Zhengzhou's GDP amount was ranked 1st out of all prefecture-level cities in Henan, and its economic growth was mainly driven by the secondary (40.0%) and tertiary industries (58.6%) in 2022.

The aggregate fiscal revenue of the Zhengzhou government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue decreased to RMB113.0 billion in 2022 from RMB122.4 billion in 2021, due to slower economic growth as well as the large-scale value-added tax credit refunds. Zhengzhou government's budget deficit narrowed to -28.1% in 2022, as a result of a larger decrease in budgetary expenditure. Moreover, the government fund income slumped to RMB52.1 billion in 2022 from RMB89.6 billion in 2021, owing to weak property market. The outstanding amount of the Zhengzhou government's debt reached RMB294.3 billion at end-2022, including c. RMB136.4 billion of general obligations and c. RMB158.0 billion of special debt.

ZZC's Financial Matrix and Liquidity Position: ZZC's profitability has been weak given its focus on public projects with limited commercial-oriented activities. ZZC's total debt was RMB28.0 billion with a debt to capitalization ratio of 59.6% at end-March 2023. ZZC has implemented an effective debt management strategy that aims to lengthen the average debt maturity and lower the financing cost in recent years.

ZZC has access to multiple financing channels, including bank loans and bond issues for funding to support its debt repayment and business development. We believe ZZC's overall liquidity is sufficient to support its debt repayments, as it had unrestricted cash of RMB5.1 billion and undrawn credit facilities of RMB14.0 billion as of end-March 2023, as compared with its outstanding debt of RMB5.8 billion to be due within one year.

Rating Sensitivities

We would consider downgrading ZZC's rating if (1) there is perceived weakening in support from Henan's Zhengzhou municipal government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Zhengzhou municipal government's ownership of ZZC, or (3) there is a downgrade in our internal credit assessment on the Zhengzhou municipal government.

We would consider upgrading ZZC's rating if (1) there is strengthened support from the Zhengzhou municipal government, or (2) there is an upgrade in our internal credit assessment on the Zhengzhou municipal government.

Company Profile

ZZC was established as a fully stated-owned entity in December 2007 under the No. 136 [2007] of the Zhengzhou Municipal People's Government with an initial capital of RMB10 million. ZZC's registered capital was RMB1 billion at end-March 2023. Zhengzhou SASAC is the only shareholder with 100% ownership through its fully-owned Zhengzhou Urban Development Group Co., Ltd (formerly known as Zhengzhou Real Estate Group Co., Ltd.) and the Zhengzhou municipal government is the ultimate controller.

ZZC had a number of wholly-owned or controlled subsidiaries that were consolidated into its financial statements at end-2022, with operations across various industries, including



public infrastructure construction and maintenance, and trading businesses. As one of the major state-owned asset management and infrastructure investment and operation entity in Zhengzhou, ZZC has played an important role for the economic development of Zhengzhou, and has received ongoing support from the Zhengzhou municipal government in terms of asset transfer, capital injection and financial subsidies.

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on ZZC's rating would result in a similar rating action on the USD notes:

- USD350 million 5.2% senior unsecured bonds due 2025
- USD200 million 3.8% senior unsecured bonds due 2025

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.