

# Zhengzhou Urban Construction Investment Group Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	15 July 2024

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 ("Zhengzhou government") would provide strong support to ZCC if needed. This mainly considers the Zhengzhou 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 government and ZCC, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Zhengzhou 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 government will continue to ensure ZCC's stable operation.

### Rating Rationale

**Zhengzhou Government's Full Ownership:** The Zhengzhou 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 government is the ultimate controller.

**High Strategic Importance:** ZCC remains as 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. Additionally, ZCC is expected to engage in the real estate sector, focusing on projects primarily designed to enhance the well-being of people in the region.

**Government Supervision and Strategic Alignment:** The Zhengzhou government and Zhengzhou SASAC have strong control and supervision over ZCC, including control of the board of directors 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)	2022	2023
<b>Zhengzhou</b>		
GDP	1,293.5	1,361.8
GDP growth rate (%)	1.0	7.4
Budgetary revenue	113.0	116.6
Government fund	52.1	38.8
Transfer payment	50.2	46.8
Budgetary expenditure	144.8	152.0
<b>ZCC</b>		
	<b>2023</b>	<b>2024.3</b>
Assets	50.9	51.7
Equity	19.1	19.1
Revenue	0.85	0.02

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

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### 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 reached RMB1,361.8 billion in 2023, representing a year-over-year growth rate of 7.4%, up from 1.0% recorded in 2022. Zhengzhou's GDP amount was ranked 1<sup>st</sup> out of all prefecture-level cities in Henan, and its economic growth was mainly driven by the secondary (39.5%) and tertiary industries (59.3%) in 2023.

The aggregate fiscal revenue of the Zhengzhou government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue slightly increased to RMB116.6 billion in 2023 from RMB113.0 billion in 2022. Moreover, the government fund income further slumped to RMB38.8 billion in 2023 from RMB52.1 billion in 2022, owing to the decreased of land use right transfer income amid challenging property market conditions. Zhengzhou government's budget deficit widened to 30.3% in 2023 from 28.1% in 2022, as a result of a larger decrease in aggregate revenue. The outstanding amount of the Zhengzhou government's debt reached RMB335.5 billion at end-2023. The debt ratio (total outstanding debt/aggregate fiscal revenue) of the Zhengzhou government surged to 165.8% in 2023 from 136.6% in 2022, mainly due to the increase in special debts.

**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 RMB29.3 billion with a debt to capitalization ratio of 60.5% at end-March 2024. 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 RMB3.7 billion and undrawn credit facilities of RMB10.8 billion as of end-March 2024, as compared with its outstanding debt of RMB8.9 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 government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Zhengzhou government's ownership of ZZC, or (3) there is a downgrade in our internal credit assessment on the Zhengzhou government.

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

## Company Profile

ZZC was established as a fully stated-owned entity in December 2007 under the No. 136 [2007] of the Zhengzhou 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 government is the ultimate controller.



ZZC had a number of wholly-owned or controlled subsidiaries that were consolidated into its financial statements at end-2023, 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 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



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