

CSCEC International Construction Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	AA-
Outlook	Stable
Location	China
Industry	Engineering And Construction
Date	23 August 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘AA-’ global scale Long-term Issuer Credit Rating to CSCEC International Construction Co., Ltd. (“CSCEC Int” or “the company”); Outlook is Stable.

Summary

The Issuer Rating reflects the likely very strong support CSCEC Int would receive from its parent China State Construction Engineering Corporation Ltd. (“CSCEC”) to ensure its viability, considering CSCEC’s full ownership of CSCEC Int, CSCEC Int’s strategic role as the key entity for overseas business development and expansion, high integration and linkage, including appointment and supervision of the senior management, major investment and financing plan decisions and ongoing political and financial support. Besides, the debt burden and leverage of the company remained relatively low in the past few years, although profitability was still under pressure.

The Stable Outlook reflects our expectation that CSCEC Int would maintain its strategic importance in CSCEC, while CSCEC will continue to support CSCEC Int’s stable operation.

Key Rating Rationales

A Key Global Construction and Investment Entity in the CSCEC System with Unique Functions: CSCEC Int, based in Beijing and Suzhou, is a fully-owned subsidiary of CSCEC, the world’s largest construction and investment group. As the main driver for overseas business development and expansion in the CSCEC system, the company spearheads the Belt and Road Initiative, delivering significant projects in housing construction, infrastructure development and investment globally. Its core roles include executing Chinese government-funded projects, managing overseas institutions of CSCEC, and leading foreign aid and embassy projects. Uniquely, CSCEC Int is the exclusive entity for government-aided projects and facilities for the Chinese Ministry of Foreign Affairs and Ministry of Commerce. It also strategically partners with the Overseas Department to engage with global government bodies and chambers of commerce, solidifying its pivotal role in CSCEC’s international endeavors.

CSCEC’s Ownership and Governance: CSCEC has the full ownership of CSCEC Int. It wields decision-making authority and oversight over CSCEC Int, playing a pivotal role in critical aspects like management appointments, strategic development decisions, investment plans, and the supervision of major funding choices. CSCEC Int’s chairman also serves as the General Manager of the CSCEC’s Overseas Division. Several directors, supervisors, and members of the management team come from CSCEC. Appointments and replacements of directors, supervisors, and other senior executives require CSCEC’s approval and are subject to unified evaluation by CSCEC.

Strong Strategic Alignment in the CSCEC System: CSCEC Int is the core coordinator and strategic guarantor of CSCEC’s overseas operations, overseeing key operational, investment, and financial decisions. International market expansion is a crucial pillar of CSCEC’s long-term strategy, with CSCEC Int providing significant competitive advantages through its extensive experience and expertise in marketing, bidding, and contracting abroad. CSCEC Int not only leads CSCEC’s international market expansion but also maintains close ties with domestic and foreign

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Applicable Criteria

General Corporate Rating Criteria (31 December 2021)

General Corporate Rating Criteria: Addendum (30 August 2022)

government departments to enhance overseas business synergy. With 50 overseas offices, CSCEC Int operates in over 30 countries and regions, playing a leading role in significant diplomatic and market projects.

Ongoing Support from CSCEC: CSCEC Int receives continuous political and financial support from CSCEC and the Chinese government. The company benefits from CSCEC's comprehensive corporate management and operational resources. CSCEC signs overseas contracts in its name and entrusts CSCEC Int with significant projects involving substantial influence and intergovernmental cooperation. CSCEC Int also has full authority to manage and allocate accounts related to government preferential export loans. CSCEC had injected a cumulative RMB3.0 billion into CSCEC Int, with an additional RMB 0.7 billion in progress for future overseas investments. Besides, CSCEC provides various types of guarantees for the company's overseas projects.

Overseas Business Hindered but Overall Development Thrives: CSCEC Int primarily derives its revenue from engineering construction and infrastructure development. Its international projects are predominantly located in developing countries, while its domestic business focus is on the Suzhou area. CSCEC Int's total revenue saw significant growth in past three years, increasing by 70.3% in 2022 and a further 18.2% in 2023. Although new contract signings dropped from RMB50.0 billion in 2022 to RMB37.9 billion in 2023, influenced by global economic disruptions, the company's domestic efforts yielded positive results. The domestic new contract signings rose from RMB16.2 billion in 2022 to RMB19.2 billion in 2023, largely due to investment in engineering construction projects.

Profitability Under Pressure Amid Market Instability: CSCEC Int's profitability has declined as its operating costs surged, despite rising revenues. The gross margin dropped from 12.6% in 2021 to 3.7% in 2023, and the EBITDA margin fell from 8.8% to 2.3% at the same time. Political and economic instability in the global market and a shift to the construction and operation model in its onshore infrastructure construction business are key contributors to this downturn,

Low Debt Burden with Sufficient Liquidity: CSCEC Int's total debt increased to RMB1.1 billion at end-2023 due to working capital loans from subsidiary construction units and development loans for real estate projects in domestic market, while it had no debt at end-2021 and end-2022. CSCEC Int's financial leverage, as measured by total adjusted debt over EBITDA, increased but remained low at 1.9x in 2023, compared with below 1x in 2021-2022. CSCEC Int's liquidity was sufficient. It had RMB9.3 billion of cash and unutilized onshore and offshore credit line of RMB46.4 billion to cover its short-term debt of RMB1.1 billion at end-2023.

Rating Sensitivities

We would consider downgrading CSCEC Int's rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage to consistently below 8x or debt over EBITDA leverage consistently to above 3.5x, or (2) it were to suffer a significant deterioration in operating performance in terms of revenue, profit margin or cash flow generation, or its liquidity profile is worsened, or (3) there is perceived weakening in support from CSCEC, particularly due to its reduced strategic importance in CSCEC and significant reduction of CSCEC's ownership, or (4) there is a downgrade in our internal credit assessment on CSCEC.

We would consider upgrading CSCEC Int's rating if (1) it were to significantly improve its operating performance, and/or (2) it were to improve its liquidity position, and/or (3) there is an upgrade in our internal credit assessment on CSCEC.

Company Profile

CSCEC Int, headquartered in Beijing and Suzhou, is a fully-owned subsidiary of CSCEC, the world's largest construction and investment group. CSCEC is a subsidiary of China State Construction Engineering Corporation, which was wholly owned by China's State-owned Assets Supervision and Administration Commission. As the exclusive domestic entity within CSCEC specializing in overseas business, it functions as an incubator for international ventures and a platform for global investment and model innovation.

Originally part of CSCEC's Overseas Operations, CSCEC Int was restructured in June 2018 to emphasize the 'Priority to Overseas Business' policy. This restructuring transformed it from an administrative department into a company, enhancing its ability to manage and oversee international projects. The company has established 42 overseas branches and entities in over 30 countries and regions, engaging in projects across housing, infrastructure, investment, development, China-aided initiatives, and diplomatic buildings. This strategic expansion supports its mission of contributing to the One Belt One Road initiative and increasing its global footprint.

Business Profile

Key Global Construction and Investment Entity in the CSCEC System with Unique Functions

Serving as the key entity for overseas business and a platform of overseas investment in the CSCEC system, CSCEC Int mainly targets at exploring overseas market and guiding overseas development of other subsidiaries and branches. With a legacy of excellence in international construction, it champions the Belt and Road Initiative, executing impactful projects across housing, infrastructure and development sectors.

CSCEC Int's key functions include marketing and implementing Chinese government-funded projects, exploring international markets, managing some of CSCEC's direct overseas institutions, and leading foreign aid and embassy-related projects. Uniquely positioned, CSCEC Int is the sole subsidiary executing government-aided projects and constructing facilities for the Chinese Ministry of Foreign Affairs and Ministry of Commerce abroad. It also actively collaborates with the Overseas Department to engage with government bodies and chambers of commerce, enhancing its strategic role in global operations.

Leading Market Position through Overseas and Domestic Development

CSCEC Int has carved out a formidable market position through a strategic focus on both overseas and domestic markets. The company's overseas endeavors have been relatively successful, with contract achievements exceeding RMB100 million in pivotal markets such as Saudi Arabia, Indonesia, and Egypt. This success is a testament to CSCEC Int's ability to navigate and capitalize on opportunities in diverse global environments, even amidst geopolitical complexities. Domestically, CSCEC Int has bolstered its presence significantly, particularly in the real estate sector in Suzhou. Notable projects like the Suzhou Nanjing University Education Park have not only expanded the company's portfolio but also underscore its commitment to high-quality development. The innovative securing of general contracting qualifications for foreign aid material projects further diversifies CSCEC Int's service offerings and opens up additional revenue streams.

Multifaceted and Resilient Overseas Expansion Amidst Diverse Global Operating Environments

Real Estate Development

As the most important contribution to the total revenue, CSCEC Int primarily operates its overseas real estate development business through a general contracting model. It takes on the role of the main contractor, engaging with government bodies, state-owned enterprises, and private companies in the host countries. The company's projects are typically governed by various versions of the FIDIC (International Federation of Consulting Engineers) conditions of contract, which dictate the payment schedules and methods, usually on a monthly or quarterly basis.

CSCEC Int intends to seize the opportunities arising from the rapid urbanization in Southeast Asia, South Asia, and parts of Africa. It has leveraged its experience from notable projects such as the New Administrative Capital and New Alamein City in Egypt and the Oyala New City in Equatorial Guinea. The New Administrative Capital project, the largest Chinese venture in Egypt, aims to develop the new capital's urban center and introduces China's smart city concepts to Egypt with a total contract amount of USD3.8 billion. This experience enables CSCEC Int to support urban development in key cities under the 'Belt and Road' initiative. Additionally, CSCEC Int is active in the affordable housing sector, meeting the needs of developing countries and promoting industrialized construction methods to improve efficiency and quality. The project in Maldives provides 7,000 social housing units, accommodating approximately 30,000 residents.

The company has secured contracts exceeding USD100 million in seven countries: Saudi Arabia, Indonesia, Thailand, Egypt, the Philippines, Papua New Guinea, and the Republic of the Congo, highlighting CSCEC Int effective market penetration and establishment in these priority regions. Furthermore, CSCEC Int promotes collaboration with Chinese-funded owners in overseas engineering projects through innovative financing models that facilitate project acquisition within CSCEC. Additionally, CSCEC's subsidiaries specializing in decoration, installation, and trade are enhancing their qualifications and professional capabilities to better support overseas projects, thereby contributing to the company's comprehensive project delivery and execution.

Infrastructure Construction

CSCEC Int focuses on advancing infrastructure connectivity and economic corridor development across Asia, Africa, and Central and Eastern Europe. It prioritizes critical infrastructure projects, including highways, bridges, airports, stations, urban transit systems, ports, and railways, which collectively account for at least 40% of its operations.

One of its major projects is a key transportation route linking Brazzaville, the capital of Congo, with Pointe-Noire, the country's economic center. This USD2.9 billion project stands as the largest and most significant collaboration between China and Congo in the past 50 years. Additionally, the company spearheads six concessional loan projects backed by Chinese government funding, totalling approximately USD4.5 billion. These projects include the Southern Highway in Sri Lanka and Highway No. 1 in Congo, highlighting the company's crucial role in global infrastructure development and its strategic use of concessional financing to support major infrastructure initiatives.

Investment and Development

CSCEC Int focuses on high-impact, high-benefit major projects, using strategic small-scale investments to secure larger contracts. It aims to leverage its expertise in light-asset projects to explore innovative investment opportunities and enhance its presence in overseas mergers and acquisitions. Currently in the investment development phase, the company is refining its investment system, establishing investment entities, and scaling up its investment activities by replicating successful project models. Key investments include the concession for Congo's

National Route 1 and the management of the Egypt CBD project. This project involves a light-asset operation model, encompassing office and apartment rentals, commercial leasing, hotel asset management, and tenant services, which generates stable cash flows.

Aid and Diplomatic

CSCEC Int supports national diplomacy by engaging in urgent and complex foreign aid and consular projects, fulfilling its role as a state-owned enterprise. It aims to enhance the scale and quality of its aid and consular services, positioning itself as a leader in this field and promoting the CSCEC Overseas Aid brand. As the sole subsidiary of CSCEC undertaking foreign aid and consular projects under CSCEC's name, CSCEC Int manages these projects throughout their lifecycle. This includes tracking, bidding, implementation, and final handover, leading CSCEC's subsidiaries in executing foreign aid projects effectively.

Flourishing Development in the Domestic Market with High-Quality Projects

CSCEC Int's is showcasing robust domestic growth across engineering contracting, investment ventures, and green low-carbon initiatives. The company's core revenue driver remains housing construction, complemented by project-related sales, equipment installation, and operational revenues.

In the realm of housing construction, CSCEC Int's stronghold in Suzhou is evident through its management of significant projects such as the Zhangjiagang residential and commercial complex, Suzhou Nanda Education Park, Jiaying Energy Storage Battery Manufacturing Base, and Honghao Semiconductor Equipment Base, each valued over RMB1 billion. The project Suzhou Suluan Field has achieved commendable turnover rates and sell-through rates, underscoring its commitment to high-quality development. CSCEC Int is also at the forefront of green and low-carbon initiatives, pioneering energy operations in overseas industrial parks. The company has secured patents and trademarks for its low-carbon technologies, which are being implemented in both domestic and international projects, earning national certification. This strategic focus on sustainability and innovation positions CSCEC Int as a leader in integrating eco-friendly practices into its global operations.

Financial Profile

Profitability Under Pressure Amid Market Instability

CSCEC Int primarily derives its revenue from engineering construction and infrastructure development. Its international projects are predominantly located in developing countries, while its domestic focus is on the Suzhou area. CSCEC Int's total revenue saw significant growth in past three years, increasing by 70.3% in 2022 and a further 18.2% in 2023. Although new contract signings dropped from RMB50.0 billion in 2022 to RMB37.9 billion in 2023, influenced by global economic disruptions, the company's domestic efforts yielded positive results. The domestic new contract signings rose from RMB16.2 billion in 2022 to RMB19.2 billion in 2023, largely due to investment in engineering construction projects.

Despite revenue growth, CSCEC Int's operating costs have escalated significantly, particularly from 2022 to 2023, impacting the company's EBITDA sharply. The profitability has also declined from 2021 to 2023, as reflected in decreasing gross and EBITDA margins. The gross margin was 12.6% in 2021, halved to 5.0% in 2022, and further decreased to 3.7% in 2023. Similarly, the EBITDA margin dropped from 8.8% in 2021 to 2.3% in 2023. This decline is primarily due to increased costs in overseas markets, driven by political reasons and economic instability caused by wars. Additionally, a shift in the business model contributed to the decline. Specifically, the

infrastructure construction business saw its gross margin turn negative in 2023 due to the completion of projects under the construction and operation model, where operational revenues were classified under other business income.

Low Leverage and Debt Burden

CSCEC Int's total debt increased to RMB1.1 billion at end-2023 due to working capital loans from subsidiary construction units and development loans for real estate projects in domestic market, while it had no debt at end-2021 and end-2022. CSCEC Int's operating model for its overseas business results in a relatively small amount of capital market financing, as most projects are funded by foreign partners who settle receivables in advance according to time schedules. In 2023, the company secured some bank financing for its real estate projects in Suzhou, but the amount was small relative to the company's overall asset size. As a result, the company's leverage ratio and interest coverage ratio have remained at healthy levels over the past three years, indicating low overall leverage and debt burden.

Sufficient Liquidity with Wide Range of Financing Channels

CSCEC Int's liquidity was sufficient. At end-2023, CSCEC Int had a cash balance of RMB33.6 billion, compared with its debt due within one year of RMB1.1 billion. Additionally, CSCEC Int has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. The company had an unused bank facility of RMB46.4 billion at end-2023. CSCEC Int also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

Key Financial Metrics

2021A-2023A	Debt/EBITDA	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	1.3x	73.4x	13.8%	0.8x

Source: CSCEC Int's 2021-2023 annual reports, Lianhe Global's adjustments

External Support

Strong External Support from CSCEC

CSCEC Int would likely receive very strong support from CSCEC to ensure its viability, considering CSCEC Int's strategic role as the core coordinator and strategic guarantor of CSCEC's overseas operations, strong integration and linkage, the potential impact on CSCEC's reputation and overall effectiveness.

CSCEC's Ownership and Governance

CSCEC has the full ownership of CSCEC Int. It wields decision-making authority and oversight over CSCEC Int, playing a pivotal role in critical aspects like management appointments, strategic development decisions, investment plans, and the supervision of major funding choices. The company's chairman also serves as the General Manager of the CSCEC's Overseas Division. Several directors, supervisors, and members of the management team come from CSCEC. Appointments and replacements of directors, supervisors, and other senior executives require CSCEC's approval and are subject to unified evaluation by the Group.



CSCEC's Ability to Provide Support

CSCEC is the largest construction companies with market-oriented operation and high degree of business integration in China. CSCEC's scale is demonstrated in its rankings. It is the largest engineering contractor in the world. CSCEC was ranked 13th and 4th in the Fortune Global 500 and Fortune China 500, respectively, in 2023. Moreover, most of the ultra-high-rise buildings with over 300 meters tall in China are built by CSCEC.

CSCEC has a long operating track record of steady business growth amid various stages of China's economic cycle. In 2009-2022, the company achieved revenue growth for 13 consecutive years with a CAGR of 17.2%. At the same time, the company recorded a CAGR of 18.3% for its net profit during the same period. In 2023, CSCEC's steady growth trend continued as it achieved a 10.2% and 6.5% growth in revenue and net profit, respectively.

Ongoing Support from CSCEC

CSCEC Int receives continuous political and financial support from CSCEC and the Chinese government. The company benefits from CSCEC's comprehensive corporate management and operational resources. CSCEC signs overseas contracts in its name and entrusts CSCEC Int with significant projects involving substantial influence and intergovernmental cooperation. CSCEC Int also has full authority to manage and allocate accounts related to government preferential export loans. CSCEC had injected a cumulative RMB3 billion into CSCEC Int, with an additional RMB 0.7 billion in progress for future overseas investments. Besides, CSCEC provides various types of guarantees for the company's overseas projects.



Appendix I: CSCEC Int's Rating Factors

Rating Factors	Weight	Initial Rating
I. Market Demand	15.0%	a-
II. Business Analysis	45%	bbb+
III. Financial Analysis	40.0%	a
IV. Base Score	100%	bbb+
V. Industry Risk		bb
VI. Qualifiers		
Liquidity	Neutral	
Corporate Governance	Neutral	
Debt Structure and Financial Policy	Neutral	
Idiosyncratic Analysis	Neutral	
Stand-Alone Creditworthiness		bbb+
External Support		Very Strong
Issuer Credit Rating		AA-

Source: Lianhe Global

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