

Zhukuan Group Holding Co., Ltd. of Zhuhai City

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘A-’ global scale Long-term Issuer Credit Rating to Zhukuan Group Holding Co., Ltd. of Zhuhai City (“Zhukuan Group” or “the company”); Issuer Credit Rating Outlook is Stable

Summary

The Issuer Rating reflects Zhukuan Group’s important strategic position as the window liaison state-owned enterprise stationed in Macau by the People’s Government of Zhuhai (“Zhuhai government”) and the sole enterprise with dual headquarters in Zhuhai City, Guangdong Province (“Zhuhai”) and Macau, the strong financial performance in terms of increasing asset size, revenue and profit, as well as the strong debt servicing ability. Moreover, Zhukuan Group has a long history of conducting business in both Zhuhai and Macau, which has advantages in terms of obtaining external government support and overall business development. However, the rating is constrained by Zhukuan Group’s limited market position and fluctuating profit margins.

The Stable Outlook reflects our expectation that Zhukuan Group will maintain its operation efficiency and high profitability, further diversify its business profile, while the Zhuhai government will continue to ensure the company’s stable operation.

Key Rating Rationales

The Sole Window Liaison State-Owned Enterprise Stationed in Macau by the Zhuhai Government: Zhukuan Group, as a state-owned enterprise with dual headquarters in Zhuhai and Macau, is primarily owned by the Zhuhai State-owned Assets Supervision and Administration Commission (“Zhuhai SASAC”). Serving as the exclusive window liaison company representing Zhuhai in Macau, Zhukuan Group holds a unique and strategically vital position in fostering economic ties between these two cities. As the economic collaboration between Zhuhai and Macau continues to deepen, Zhukuan Group is poised to receive increasingly support for the expansion of its cross-border business. The company has great advantages in terms of government support and overall business development.

Improved Revenue Diversification with Expanding Cross-border Business: Zhukuan Group is mainly engaged in property development, merchandising sales and other cross-border business (mainly including cross-border labor service, engineering and financing service). The increasing contributions from trading and hotel services led the diversification of Zhukuan Group’s revenue mix, with the contribution from property development and labor services decreasing from 77.4% in 2022 to 56.5% in 2023. Benefiting from the supportive policies of the Zhuhai government, the company is actively pursuing cross-border business expansion, particularly through the development of the cross-border human resources service and trading platform. Additionally, the company has established cross-border finance lease and fund investment business to further utilize its regional advantages and broaden the capital flow channels between Zhuhai and Macau.

Stable Property Sales with Adequate Land Bank but High Concentration Risk: Zhukuan Group’s real estate sales projects performed steadily in 2023. It advanced three projects on sale, achieving revenue of RMB1.3 billion with a profit margin of 66.0% in 2023. As one of the pioneering property development companies in Zhuhai, Zhukuan Group possesses a substantial land bank with competitive costs. The primary focus of Zhukuan Group’s property development

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Real Estate and Merchandise Trade
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Applicable Criteria

[General Corporate Rating Criteria \(31 December 2021\)](#)

[General Corporate Rating Criteria: Addendum \(30 August 2022\)](#)

is in Zhuhai, which consists of over 95% of its land bank portfolio, demonstrating a high level of concentration risk. Given the current challenging conditions in the real estate market, the company may face potential adverse pressure on the overall sales performance.

Improved Business Scale, Volatile but High Profit Margin: Zhukuan Group's asset showed a steady growth in the past few years and reached RMB10.5 billion at end-2023, representing an increase of 34.3% from end-2022. Its revenue also recorded a stable growth, recognizing RMB3.4 billion in 2023. The gross profit margin remains relatively high at 36%-40% from 2021 to 2022, mainly driven by the low land cost of its property projects. However, its gross margin decreased to 26.9% in 2023, due to the increasing proportion of merchandising sales. Even the company recorded EBITDA growth in 2023, the interest cost also increased due to expanded financing scale. As a result, the EBITDA interest coverage (EBITDA/Interest) decreased from 6.5x in 2022 to 5.1x in 2023.

Increasing Leverage but Sufficient Liquidity: Zhukuan Group's total debt increased to RMB3.7 billion at end-2023 from RMB1.8 billion at end-2022, due to the expansion of its business scale. Its debt to capitalization ratio also increased to 45.7% at end-2023 from 32.5% at end-2022. Zhukuan Group's financial leverage, as measured by debt over EBITDA, increased to 6.4x in 2023, compared with 3.1x in 2022. The impact from the total debt increase was partially offset by the EBITDA growth in 2023. The short-term debt contributed 45.7% of its total debt at end-2023, representing an upward trend. Having said that, the increase in the company's debt primarily came from an increase in notes payable, which corresponds with the expansion of the company's merchandise trade operations. As the company grows and generates more revenue through its merchandise trade, the increase in debt is manageable and does not pose significant financial risks. The minority interest increased significantly from RMB1.6 million at end-2021 to RMB262.2 million at end-2023. At end-2023, Zhukuan Group had RMB1.4 billion of cash (RMB3.6 million of unrestricted cash) and unutilized credit line of RMB2.3 billion to fully cover its short-term debt of RMB1.7 billion.

Strong External Support from the Zhuhai Government: Zhuhai is a prefecture city of Guangdong Province and it is one of the five Independent Planning Status cities under the National Social and Economic Development Plan. The Zhuhai government has 90% ownership of Zhukuan Group via the Zhuhai SASAC, while the remaining 10% is held by the Guangdong Provincial Finance Department ("Guangdong FB"). The Zhuhai government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. As the exclusive window liaison company representing Zhuhai in Macau, Zhukuan Group undertakes certain government functions in these two cities, including infrastructure-related projects construction, labor service supply and cross-border capital asset investment and operation. Zhukuan Group plays an important role of accelerating in-depth cooperation between Zhuhai and Macau. It has a proven track record of receiving supports from the local government, including operation subsidies, equity transfer, tax breaks, policy support and guidance from the government.

Rating Sensitivities

We would consider downgrading Zhukuan Group's rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage to consistently below 5x or debt over EBITDA leverage consistently to above 5.5x, 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 a decrease in support from or function for the local government.

We would consider upgrading Zhukuan Group's rating if (1) it were to significantly improve its operating performance, and/or (2) it were to improve its financial leverage and liquidity consistently, and/or (3) there is an increase in support from or function for the local government.

Company Profile

Zhukuan Group was first established in Macau in 1980 under the approval of the Zhuhai government. In accordance with the requirements of the Guangdong Provincial Government, Zhuhai SASAC transferred 10% of the company's equity to Guangdong FB in December 2020.

At end-June 2024, the company's registered capital and paid-in capital were RMB150 million. Zhuhai SASAC holds 90.00% of its equity interest, making it the actual controller of the company.

Key Financial Metrics

2021A-2023A	Debt/EBITDA	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	5.31x	5.32x	40.54%	0.49x

Source: Zhukuan Group's 2021-2023 annual reports, Lianhe Global's adjustments



Appendix I: Zhukuan Group's Rating Factors

Rating Factors	Weight	Initial Rating
I. Market Demand Analysis	15.0%	bbb-
II. Business Analysis¹	45.0%	bbb-
III. Financial Analysis²	40.0%	bbb
IV. Base Score	100.0%	bbb-
V. Industry Risk		bbb
VI. Qualifiers		
Liquidity		Neutral
Corporate Governance		Neutral
Debt Structure and Financial Policy		Neutral
Idiosyncratic Analysis		Neutral
Stand-Alone Creditworthiness		bbb-
VII. External Support		
Government Support		Strong
Issuer Credit Rating		A-

Source: Lianhe Global

¹ Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.
² Financial Analysis contains sub-factors of debt/EBITDA, EBITDA interest coverage, debt/capitalization and quick ratio.

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