

Shenzhen Longhua Construction Development Co., Ltd.

Summary

Issuer Rating	A+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	3 September 2025

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shenzhen Longhua Construction Development Co., Ltd. (“SLCD” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Longhua District, Shenzhen City (“Longhua government”) would provide very strong support to SLCD if needed. This mainly considers the Longhua government’s direct fully ownership of SLCD, SLCD’s strategic position as an important local investment and development company (“LIDC”) responsible for urban construction and operation in Longhua District (“Longhua”). The linkage between the local government and SLCD is strong, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities should SLCD encounter any operational or financial difficulties.

Longhua, positioned in north-central Shenzhen, serves as an important growth engine within China’s Greater Bay Area. In 2024, Longhua’s GDP grew steadily by 5.6% to RMB315.4 billion, while its budgetary revenue decreased by 1.9% to RMB16.5 billion.

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

Rating Rationale

Government’s Ownership and Supervision: The Finance Bureau of Longhua District, Shenzhen (“Longhua FB”) directly holds 100% stake in SLCD, and it is the ultimate controlling shareholder of the company. The Longhua 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. In addition, the Longhua government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Alignment and Importance: SLCD is the key LIDC in Longhua. It is primarily responsible for urban development and operations, focusing on public welfare and social service enhancement. Its integrated solutions cover critical urban infrastructure domains, including affordable housing development, land consolidation/renewal, market management, environmental sanitation and greenery systems, security services, municipal property operations, and strategic financial investments. This multi-sector approach synergizes urban modernization with community needs, balancing revenue-generating projects with essential public services. SLCD adjusts its strategic direction according to Longhua’s economic strategy and market demand. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Strong Government Support: SLCD receives ongoing support from the Longhua government in the form of operational subsidies and asset/equity injections. This mainly includes capital injections valued at RMB1.4 billion from 2022 to end-June 2025. In the meantime, the company received operating subsidies totaled approximately RMB460 million.

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2025)

We expect SLCD to receive timely support from the local government over the coming years, given its strategic importance to Longhua.

SLCD's Financial and Liquidity Position: SLCD's asset base expanded over the past three years as it actively participated in Longhua's project development. Its asset size reached RMB24.8 billion at end-June 2025, ranking 1st among all LIDCs in the region. The company mainly relied on borrowings to finance its land consolidation projects. As a result, SLCD's financial leverage, measured by debt-to-capitalization, rose to 42.1% at end-June 2025 from 31.4% at end-2023.

SLCD's short-term debt servicing pressure is moderately high. At end-June 2025, the company's short-term debt totaled about RMB1.6 billion, compared with RMB821.7 million of unrestricted cash on hand. Yet SLCD retains access to a range of funding channels, including bank borrowings and bond issuance. Its undrawn bank facilities totaled around RMB7.9 billion at end-June 2025, providing additional liquidity headroom for its debt repayments and business operations.

Rating Sensitivities

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

We would consider upgrading SLCD's rating if there is an upgrade in our internal credit assessment on the Longhua government.

Operating Environment

Economic Condition of Longhua

Longhua's Economy Condition			
(RMB billion)	2022	2023	2024
GDP	295.2	301.1	315.4
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	48.4	46.6	48.6
-Tertiary industry (%)	51.5	53.4	51.4
GDP growth rate (%)	2.9	2.0	5.6
Fixed asset investment growth rate (%)	5.1	20.5	6.8
Population (million)	2.5	2.5	2.5
<i>Source: Public information and Lianhe Global's calculations</i>			

Longhua, positioned in north-central Shenzhen, serves as an important growth engine within China's Greater Bay Area. As a key manufacturing and tech nexus, it hosts global giants like Huawei and Foxconn, driving a large proportion of Shenzhen's industrial output. The district anchors regional connectivity through Shenzhen North Station, handling most of the city's high-speed rail traffic. It has a residential population of 2.5 million with an urbanization rate of 100% at end-2024.

Longhua's GDP grew by 5.6% to RMB315.4 billion in 2024, ranked 5th among all districts under the administration of Shenzhen City. Its economic growth is mainly driven by secondary and tertiary industry, which accounted for 48.6% and 51.4% of its total GDP in 2024. Its development has focused on integrated tech-industrial innovation, smart city infrastructure development, community welfare enhancement and sustainable urban financing models.

Fiscal Condition of Longhua

Longhua 's Fiscal Condition			
(RMB billion)	2022	2023	2024
Budgetary revenue	15.2	16.8	16.5
Budgetary revenue growth rate (%)	8.8	10.8	-1.9
Tax revenue	13.0	15.8	15.8
Tax revenue (% of budgetary revenue)	85.6	94.4	95.6
Government fund income	0.2	0.5	0.8
Transfer payment	30.1	13.7	14.8
Aggregate revenue	45.7	31.0	32.1
Budgetary expenditure	33.1	31.5	27.1
Budget balance ¹ (%)	-118.6	-87.7	-64.4
Government debt ratio (%)	34.0	67.7	84.3

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

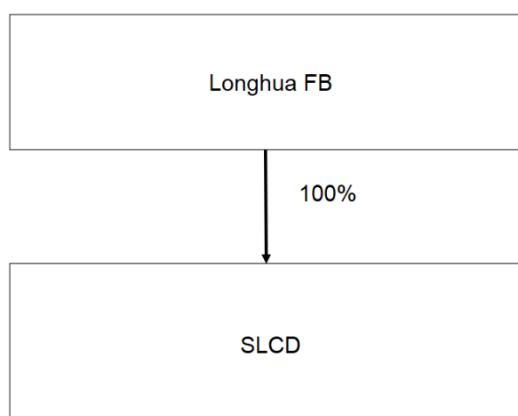
The budgetary revenue of the Longhua government decreased slightly to RMB16.5 billion in 2024 from RMB16.8 billion in 2023, marking a year-over-year decline of -1.90%. The fiscal self-sufficiency rate of the Longhua government remained weak, although its budget deficit narrowed to 64.4% in 2024 from 87.7% in 2023. In addition, the government fund income rebounded to RMB0.8 billion in 2024 from RMB0.5 billion in 2023, mainly due to the increased land use right transfer income.

The outstanding debt of the Longhua government kept growing in past few years. At end-2024, the Longhua government's outstanding debt increased to RMB27.1 billion from RMB21.0 billion at end-2023, mainly due to the issuance of special purpose debts to support local public projects. Its government debt ratio, as measured by the total government debt/aggregate revenue, increased to 84.3% at end-2024 from 67.7% at end-2023.

Company Profile

Ownership Structure

SLCD was established in 2015 by the Shenzhen Longhua New District Development and Finance Bureau with initial registered capital of RMB2.0 billion. After an array of equity transfers and capital injections, Longhua FB directly held 100% shares of SLCD at end-June 2025. The paid-in capital was also enlarged to RMB6.57 billion at the same time.



Source: The company and Lianhe Global

Revenue Breakdown

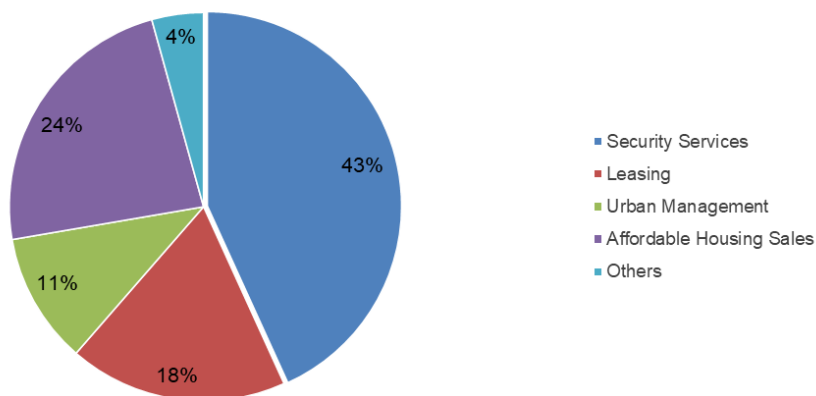
SLCD is primarily responsible for urban development and operations, focusing on public welfare and social service enhancement. It remains central to Longhua's urban development through three flagship initiatives, including affordable housing, land consolidation projects (such as Fucheng South and Guanhu North), and urban renewal programs. The completed Longxi housing project generated RMB378 million revenue in 2024, while the HuaXingYuan project held the government purchase agreements after project completion. Funding challenges persist, with 83% of the RMB45.4 billion total project budget still requiring capital at end-2024, primarily self-funded through hybrid revenue models such as property sales, government buybacks, and self-operated assets. Key developments include the International Medical Device City and Jiantai renewal project.

Security operations serve 282 sites across Longhua, including 65 government facilities and 84 corporate clients. Despite a 6.5% YoY reduction in service contracts in 2024, the company maintains more than 7,000 security personnel at end-2024. Revenue pressures stem from municipal budget cuts and corporate cost optimization, though strategic partnerships with critical infrastructure operators provide stability. The business model remains anchored to annual renewals with public sector clients, which constitute 43.2% of revenue in 2024.

Leasing revenue grew 63.2% to RMB295.1 million in 2024, driven by the Digital Innovation Center's higher occupancy. However, this asset operates at a loss due to below-market rents, offset by RMB456 million government subsidies in 2023. Agricultural markets demonstrate stability with more than 90% occupancy. The business faces structural challenges as most of leased space comes from loss-making managed properties versus less from profitable self-owned assets.

Asset management revenue halved to RMB13.4 million in 2024 after the revenue recognition of Jiulongshan pandemic facilities. Core managed assets include premium commercial complexes like Beizhan Yihao and Hongshan 6979. Operations leverage strategic locations near Shenzhen North Station's business hub, though renewal risks exist with four major contracts expiring in 2025.

Total revenue: RMB1.6 billion in 2024

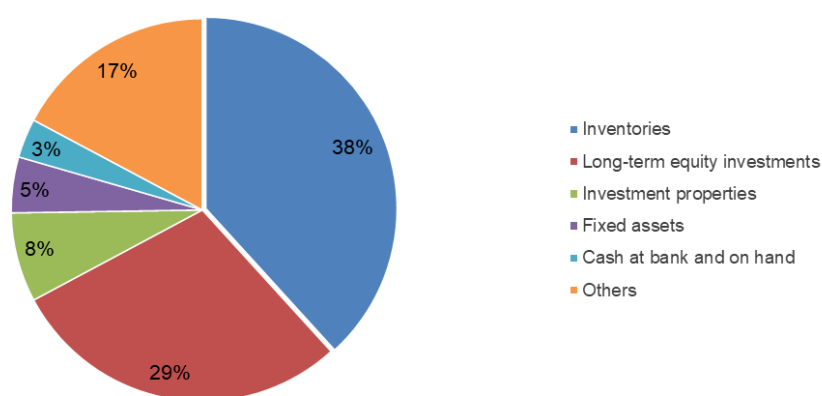


Source: The company's financial reports and Lianhe Global's calculations

Assets Breakdown

SLCD's asset-side liquidity was weak. At end-June 2025, long-term equity investments and inventories together accounted for about 67% of its RMB24.8 billion asset base. Long-term equity investments (around 29% of total assets) primarily reflect shares of local SOEs. Inventories (around 38% of total assets) mainly comprise construction costs related to the company's construction projects and affordable housing development projects, which usually take a long time to monetize due to protracted construction and cash collection period. Investment assets accounted for about 8% of total assets, consisting mainly of Longxin Jiayuan, Huilong Business Center, assets injected by the government, and the wet-market portfolio operated by its subsidiary.

Total assets: RMB24.8 billion at end-June 2025



Source: The company's financial reports and Lianhe Global's calculations

Key Financial Data

(RMB million)	2022	2023	2024	1H2025
Total Assets	16,796	20,344	23,535	24,804
Equity	9,764	10,834	12,095	12,239
Debt	3,374	4,968	7,408	8,892
Debt / (Debt + Equity) (%)	25.7	31.4	38.0	42.1
Unrestricted cash/ST Debts (x)	2.2	4.9	1.9	0.4
Debt/EBITDA (x)	16.5	21.3	23.2	-
Revenue	1,360	1,428	1,620	617
Operation Profit	120	298	4	-112
Gross Margin (%)	-4.7	-9.4	-3.4	-8.7
Cash from sales or services/ revenue (%)	105.7	103.8	70.3	134.2

Source: The company and Lianhe Global's calculations

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