

Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhengzhou Urban Construction Investment Group Co., Ltd.

HONG KONG, 26 September 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Zhengzhou Urban Construction Investment Group Co., Ltd. (“ZZC”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that Henan’s Zhengzhou municipal government would provide strong support to ZZC if needed. This mainly considers the Zhengzhou government’s full ownership of ZZC, the high strategic importance of ZZC to Zhengzhou in the municipal infrastructure construction and maintenance, and the strong linkage between the Zhengzhou government and ZZC, 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 ZZC encounter any operational or financial difficulties.

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

Key Rating Rationales

Zhengzhou Government’s Full Ownership: The Zhengzhou municipal government has 100% ownership of ZZC 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 of ZZC through its fully-owned Zhengzhou Real Estate Group Co., Ltd. ZZC was established in December 2007 with an initial capital of RMB10 million and subsequently increased its registered capital to RMB1 billion as of end-June 2019.

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

ZZC is mainly responsible for the construction and investment of municipal infrastructure projects within the Fourth Ring of Zhengzhou City. Major completed projects include the first phase of Beijing-Guangzhou Expressway Project, Jinshui Road West Extension Project, East Third Ring Expressway Project, etc. Projects which are currently under construction include

Zhengzhou Grand Theatre, Zhengzhou Citizen Activity Centre, Jialu River Ecological Greening Project, and Zhongyuan New District Shantytown Renovation.

Government Supervision and Strategic Alignment: The Zhengzhou municipal government and Zhengzhou SASAC have strong control and supervision over ZZC, including control of the board of directors and the supervisory committee, senior management appointments, and major strategic, investment and financing planning. ZZC'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.

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, e.g. build-transfer contracts, government procurement of services and public-private partnership projects.

Strong Economy and Fiscal Strength Underpin Zhengzhou: Ongoing economic development, industrialisation and urbanisation have supported Zhengzhou's high GDP growth rate which was 7.9% in 1H2019 (8.1% in 2018), compared with Henan province's 7.7% and China's 6.3%. The service industry has become the main GDP growth driver with the tertiary industry (the service sector) accounting for the largest 54.9% of Zhengzhou's 1H2019 GDP, followed by the secondary industry's (comprising manufacturing and construction) 43.8%.

Zhengzhou's aggregate fiscal revenues are mainly derived from stable budgetary revenue with tax revenue accounting for above 70% between 2016-2018 and more volatile government fund income. Subsidies from higher government authorities have been relatively small. Zhengzhou's debt ratio (i.e. total government debt divided by aggregate revenue) decreased to a moderate level of 60.6% in 2018 from 88.7% in 2016, while its budget deficit became bigger due to fast growing budgetary expenditure during the period.

Moderately Weak Financial Matrix: ZZC's earnings generation capability has been weak given its focus on public projects with limited commercial-oriented activities. The reliance on debt financing to support its capital expenditure drove up ZZC's financial leverage (total liabilities to assets) to 50.9% at end-2018 from 37.8% at end-2016, mitigated by its sufficient liquidity with cash on hand and standby credit facilities. RMB2.2 billion of outstanding debt will be due within one year as of end-June 2019, compared with ZZC's unrestricted cash position of RMB5.5 billion, unused bond quota of RMB5.4 billion, available credit lines of RMB41.7 billion and other debt financing vehicles of RMB4 billion.

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 municipal government.

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this ZZC's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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