Credit Opinion

18 June 2025

Ratings	
Senior Unsecured Debt Rating	A_g+
Long-Term Credit Rating	A_g+
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Wuhan Urban Construction Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Wuhan Urban Construction Group Co., Ltd.'s long-term credit rating at A_g+, with stable outlook.

Summary

The A_g+ long-term credit rating of Wuhan Urban Construction Group Co., Ltd. ("WUCG" or the "Company") reflects (1) Wuhan Municipal Government's excellent capacity to provide support, and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Wuhan Municipal Government's capacity to provide support reflects its status as the capital of Hubei Province, with good economic growth and outstanding fiscal quality.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) vital role in Wuhan's economic and social development, with a large amount of public projects in the pipeline; (2) good track record of receiving ongoing government payments; and (3) good access to diversified funding channels.

However, the rating is constrained by the Company's (1) high exposure to commercial activities, especially in property development business; (2) weak asset quality; and (3) medium contingent liability risk.

The stable outlook on WUCG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic position in the development of Wuhan City.

Rating Drivers

- Vital role in Wuhan's economic and social development, with large amount of public projects in the pipeline
- High exposure to commercial activities, especially in property development business
- Good track record of receiving ongoing government payments
- Prudent debt management with decreasing debt amount albeit high debt leverage
- Weak asset quality
- Good access to diversified funding channels, but moderate reliance on non-standard financing
- Medium contingent liability risk from external guarantees provided to local SOEs

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government’s capacity to support strengthens; and (2) the Company's characteristics change in a way that strengths the local government’s willingness to support, such as decrease in exposure to commercial activities or improvement in assets quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government’s capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government’s willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in debt burden.

Key Indicators

	2022FY	2023FY	2024FY
Total Asset (RMB billion)	364.6	388.9	390.4
Total Equity (RMB billion)	96.6	101.3	102.5
Total Revenue (RMB billion)	58.1	64.1	61.2
Total Debt/Total Capital (%)	59.8	58.7	56.2

All ratios and figures are calculated using CCXAP’s adjustments

Source: Company data, CCXAP research

Corporate Profile

Founded in 2002 as Wuhan Real Estate Development & Investment Group Co., Ltd., the Company transformed into a key local infrastructure investment and financing entity ("LIIFC") for Wuhan City following the consolidation of six state-owned enterprises in 2020. It specializes in undertaking public-policy projects such as indemnificatory housing, shantytown renovation and municipal infrastructure development, while concurrently engaging in commercial operations including real estate development, construction services, and property leasing. As of 31 March 2025, WUCG remains wholly owned and ultimately controlled by the Wuhan State-owned Assets Supervision and Administration Commission (Wuhan SASAC).

Exhibit 1. Revenue structure in 2024

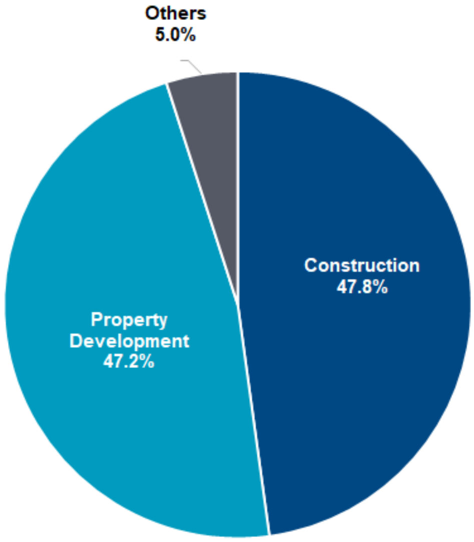
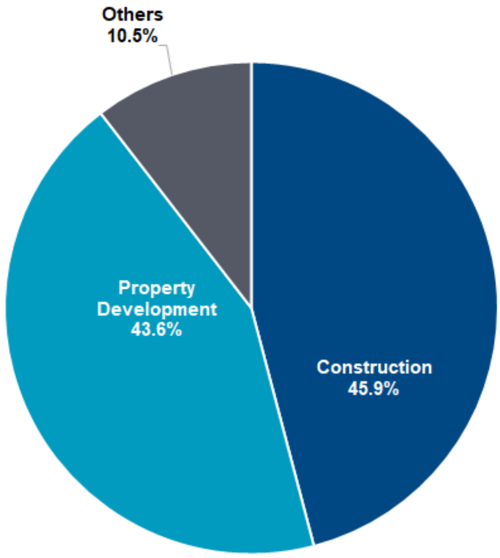


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Wuhan Municipal Government has an excellent capacity to provide support as reflected by its status as the capital of Hubei Province, with good economic growth and outstanding fiscal quality.

Hubei Province is at the center of the Yangtze River Economic Belt and is a natural link between the East and West regions' economies, with a solid foundation in different industries such as metallurgy, automobiles, chemicals, building materials, food, machinery manufacturing, textiles, electronics, and shipbuilding. Hubei Province is the seventh largest province in China by gross regional product ("GRP") in 2024, which reached RMB6.0 trillion with a year-on-year ("YoY") increase of 5.8%. Hubei Province has improved financial strength. Its general budgetary revenue increased from RMB369.2 billion in 2023 to RMB393.7 billion in 2024. The growth was primarily driven by Hubei Province's intensified efforts to optimize existing assets, boosting revenue from state-owned resource utilization and accelerating non-tax income growth. Its tax revenue experienced a slight decline, primarily due to economic slowdown, weak real estate market performance, and tax-fee reduction policies. Besides, Hubei Province's debt burden is relatively heavy, its direct government debt increased to RMB 1.9 trillion at end-2024, accounting for 21.0% of its GRP. The increase in debt was primarily attributable to Hubei Province taking the lead among 31 provinces in issuing local government bonds, with the raised funds being allocated to major construction projects and existing debt repayment to expand effective investment.

Exhibit 3. Key Economic and Fiscal Indicators of Hubei Province

	2022FY	2023FY	2024FY
GRP (RMB billion)	5,373.4	5,580.3	6,001.3
GRP Growth (%)	4.3	6.0	5.8
General Budgetary Revenue (RMB billion)	328.1	369.2	393.7
General Budgetary Expenditure (RMB billion)	862.4	929.6	997.4
Local Government Debt (RMB billion)	1,390.0	1,562.5	1,858.6

Source: Statistics Bureau of Hubei Province, CCXAP research

As the capital city of Hubei Province, Wuhan City is the most economically developed city in Hubei Province. Wuhan has breakthrough development of five key industries, including optoelectronics information, new energy and intelligent connected vehicles, life and health, high-end equipment, as well as Beidou. In addition, Wuhan City has a diversified economic structure, showing strong risk resistance capability. Thanks to industrial production and consumption recovery, the GRP of Wuhan City achieved RMB2.1 trillion in 2024, ranking first among all cities in Hubei Province and 9th among all prefecture-level cities in China, with a YoY increase of 5.2%. Wuhan Municipal Government's fiscal strength also improved along with the economic growth. Its general budgetary revenue increased from RMB160.1 billion in 2023 to RMB166.7 billion in 2024, of which tax income accounted for more than 70%. Besides, Wuhan City has a good fiscal balance, with a general budgetary revenue to general budgetary expenditure ratio of around 70.0% on average over the past three years. However, Wuhan Municipal Government's debt burden was growing rapidly with an outstanding direct government debt of RMB780.6 billion at end-2024, accounting for 37.0% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Wuhan City

	2022FY	2023FY	2024FY
GRP (RMB billion)	1,886.6	2,001.2	2,110.6
GRP Growth (%)	4.0	5.7	5.2
General Budgetary Revenue (RMB billion)	150.5	160.1	166.7
General Budgetary Expenditure (RMB billion)	222.3	220.4	248.1
Local Government Debt (RMB billion)	629.5	684.6	780.6

Source: Statistics Bureau of Wuhan City, CCXAP research

Government's Willingness to Provide Support

Vital role in Wuhan's economic and social development, with a large amount of public projects in the pipeline

As Wuhan City's third-largest local infrastructure investment and financing company by asset size, the Company serves as the municipal platform for executing urban renewal projects. It plays a vital role in delivering various public infrastructure projects in the city, ranging from road reconstruction and elevated bridge construction to cultural centers and affordable housing developments. In addition, the local government has exclusively designated the Company as the financing platform for all urban shantytown redevelopment projects in the city. The large amount of projects in the pipeline can ensure its business sustainability, but also exert notable capital expenditure pressure.

The Company maintains a strategic role in implementing numerous urban infrastructure projects of significant economic, social, and strategic importance to Wuhan City. These projects mainly consist of public building projects as well as municipal infrastructure projects. The Company and its subsidiaries execute infrastructure projects under three key models including leasing, entrusted operation, and cost compensation. As of 31 March 2025, the Company had 18 major infrastructure projects in progress with a total planned investment of RMB67.0 billion, of which RMB7.6 billion remained uninvested. All ongoing projects operate under the cost-compensation model. Notably, 8 completed projects still not settled yet, indicating some uncertainty regarding the repayment. Additionally, for the 4 projects under the leasing model, the Company is expected to receive annual rental income of approximately RMB836.0 million from the local government. The lease periods range from 15 to 20 years. While the projects in the pipeline can ensure business sustainability, it simultaneously creates notable capital expenditure pressure.

In addition to urban infrastructure projects, the Company also participates in indemnificatory housing projects such as public rental housing and relocation housing. As of 31 March 2025, the Company had completed 6 public rental housing projects, with a total investment of RMB3.6 billion, of which RMB3.2 billion was funded through fiscal allocation. The Company operates and manages these public rentals housing units, with accumulated rental revenue of about RMB717 million. Besides, it also has completed 3 relocation housing projects with a total investment of RMB2.9 billion, among which about RMB732 million was funded by fiscal allocation. These projects have generated cumulative sales revenue of RMB2.1 billion. However, the Company has no indemnificatory housing projects in planning phases, suggesting limited business continuity in this sector.

High exposure to commercial activities, especially in property development business

WUCG's commercial businesses mainly include engineering construction and commercial property development. We consider the Company’s exposure to commercial businesses to be high, accounting for more than 30% of its total assets.

The Company's commercial property business maintains a leading position among local enterprises in Wuhan, with the property sales revenue increasing year by year. The Company has a sufficient pipeline of projects under construction and in the planning phase, providing major contributors to its revenue and profit. However, it also brings significant capital expenditure pressure. The Company is primarily focusing on the development and sale of quality residential properties and commercial properties. This business is mainly concentrated in Wuhan City, and it has expanded into key cities in the Yangtze River Delta as well as the Guangdong-Hong Kong-Macao Greater Bay Area. In 2024, the Company has acquired 8 land parcels in Wuhan City, with an aggregate transaction price of RMB2.8 billion. It ranked 28th on the 2025 China’s Top 100 Real Estate Enterprises list while maintaining the top 1 position in Wuhan for five consecutive years. As of 31 March 2025, the Company has completed 79 property projects with a total invested amount of RMB170.5 billion and collected project sales totaling RMB148.9 billion. In 2024, the Company’s contracted sales amounted to RMB28.4 billion, increasing by 4.9% YoY. However, the gross profit margin of the business declined from 18.8% to 11.9%. It also had 31 property projects under construction with a total planned investment amount of RMB141.7 billion and an uninvested amount of around RMB67.4 billion. It also has 12 property projects under planning with total planned investment amount of RMB38.0 billion. Notably, uncertainty exists in this business as it is highly subject to local government planning and the local real estate market condition, which may also exert higher volatility during the downturn of China’s property market.

The Company maintains a strong competitive position in engineering construction business in Wuhan, with steady growth in newly signed contracts and a robust project pipeline that provides solid support for future performance. This business segment serves as the Company's primary revenue source, with revenue of RMB29.3 million in 2024, accounting for 47.8% of the Company's total revenue. The Company's construction projects mainly adopt EPC and PPP models. As of 31 March 2025, the Company had 36 engineering construction projects under construction by EPC model, with a total contract amount of RMB31.2 billion and has achieved total project payments of RMB16.2 billion. Furthermore, the Company had 4 engineering construction projects under the PPP model, with a planned investment of RMB11.7 billion and slow project payments of RMB873.7 million. All PPP projects have been included in the project management database of the Ministry of Finance, with guaranteed repayments. Overall, as of 31 March 2025, the Company has an unfinished contract on hand with a total value of RMB25.2 billion, which can ensure its business sustainability. The Company also has relatively diversified customers, with the top five construction owners accounting for 26.6% of the newly-signed contract amount in 2024.

Good track record of receiving ongoing government payments

As a key state-owned enterprise directly administered by Wuhan SASAC, the Company has an established track record of receiving municipal government financial support through multiple channels, including operational subsidies, bond allocations, and capital injections. From 2022 to 2024, the Company received capital injections of RMB1.3 billion from the local government in the form of state-owned capital, resulting in an increase in paid-in capital. The Company has also received public rental housing and low-rent housing injections of RMB2.2 billion and the project construction funds and land-transferring fees of RMB5.3 billion, during 2022 to 2024. Besides, the Company has received support through government bond swaps and special bonds, with outstanding balances totaling RMB13.4 billion as of end-2024. Considering its strategic role in Wuhan City, we expect the local government will provide ongoing support to the Company in the future.

Prudent debt management with decreasing debt amount albeit high debt leverage

The Company maintains prudent debt management, with reduced debt burden over the past year. The Company's adjusted total debt decreased from RMB144.1 billion at end-2023 to RMB131.5 billion at end-2024, but with a relatively high total capitalization ratio of 56.2%. The gradual debt reduction has been supported by consistent government funding inflows and the Company's disciplined capital management. Nevertheless, the Company has increasing short-term debt servicing pressure, with short-term debt representing 26.9% of total debt at end-2024. While WUCG maintains substantial commitments to public policy infrastructure and commercial real estate investments, we expect the Company's debt will continue to modestly decrease over the next 12-18 months given our expectation of continued municipal government support for policy-driven capital expenditures and debt obligations.

Weak asset quality

The Company's asset liquidity is moderate, constrained by a substantial portion of less liquid assets. As of 31 March 2025, inventories primarily comprised of property development costs, and other non-current assets largely consisted of infrastructure construction projects, totally accounting for 58.6% of total assets. The moderate liquidity asset may undermine the Company's financing flexibility. Moreover, the Company made provisions for inventory write-downs of RMB1.1 billion in 2024, mainly due to the market downturn. Given its substantial property development costs and large-scale properties for sale, the Company still faces inventory write-down risks amid market downturn. In addition, the Company had pledged RMB27.7 billion in assets as loan collateral as of end-2024, equivalent to 7.1% of total assets. Nonetheless, its investment properties and long-term equity investments, accounting for 6.0% of total assets, can provide modest but stable rental and investment income streams.

Good access to diversified funding channels, but moderate reliance on non-standard financing

WUCG maintains robust financing capabilities through both banking and capital market channels, supported by sufficient liquidity reserves. The Company has sufficient standby liquidity. As of the end of 2024, it had obtained total credit facilities of RMB313.2 billion from diversified domestic policy banks and commercial banks, with an available amount of RMB170.5 billion. The Company also demonstrate strong access to debt capital markets. As of 31 May 2025, the Company and its subsidiaries had outstanding onshore bond of RMB27.4 billion at a low average rate of 2.8%, comprising a diversified mix of corporate bonds, MTNs, SCPs, and PPNs. Additionally, the Company also has outstanding offshore bonds of USD500 million.

However, the Company has a moderate reliance on non-standard financing, accounting for about 30% of total debt as of the end of 2024. Non-standard financing is not as transparent and stable as bank loans, which may cause related credit risks to the Company. Nevertheless, its non-standard debts have long tenors and reasonable funding costs. We expect the Company to benefit from its improving access to the lower-cost bond and bank market, and gradually reduce its borrowing from nonstandard funding channels.

Medium contingent liability risk from external guarantees provided to local SOEs

The Company is exposed to a medium contingent liabilities risk. At end-2024, the Company recorded an external guarantee amount of RMB37.0 billion, accounting for 36.1% of its total equity. Those guaranteed entities are the SOEs in Wuhan City. The credit risk of the Company and other local SOEs might be heightened if one guaranteed entity suffers from credit issues. However, we believe the overall risk of contingent liabilities is manageable as the government is highly likely to provide the necessary support when needed.

ESG Considerations

WUCG assumes environmental risks through its urban infrastructure projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, WUCG has played a crucial role in the social welfare of Wuhan City by involving the construction of public projects and indemnificatory housing projects in Wuhan City.

In terms of corporate governance, WUCG’s governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

WUCG’s senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic position in the development of Wuhan City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China’s Local Infrastructure Investment and Financing Companies (July 2022).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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