

## Credit Opinion

13 October 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable

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## Zoucheng Limin Industrial Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Zoucheng Limin Industrial Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Zoucheng Limin Industrial Group Co., Ltd. ("LMIG" or the "Company") reflects the Company's (1) strong regional competitiveness in engineering construction business in Zoucheng City; and (2) supplementary income benefited from a relatively diversified business structure.

However, the rating is constrained by the Company's (1) relatively weak profitability with low return on assets; (2) increasing debt burden and relatively weak debt serving capability; and (3) modest liquidity position with certain refinancing pressure.

The rating also reflects a high likelihood of support from its parent company when needed, given Company's (1) status as the core subsidiary in industrial investment of Zoucheng Limin Construction and Development Group Co., Ltd. ("ZCLM"); (2) ultimate control by the Finance Bureau of Zoucheng City; (3) regional importance in industrial investment and urban operation in Zoucheng City; and (4) good track record of receiving ongoing support from ZCLM.

The stable outlook on LMIG's rating reflects our expectation that the Company will maintain its regional competitiveness and importance in the industrial development of Zoucheng City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from ZCLM.

## Rating Drivers

- Strong regional competitiveness in engineering construction business
- Supplementary income benefited from a relatively diversified business structure
- Relatively weak profitability along with low return on assets
- Increasing debt burden and relatively weak debt serving capability
- Modest liquidity position alleviated by access to funding channels
- High likelihood of support from the parent company

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the Company's business strength improves, such as stable operating cash flow from more diversified business segments; and (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and liquidity.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government or parental support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as a deterioration in financial leverage or weakened liquidity position.

## Key Indicators

	2022FY	2023FY	2024FY	2025H1
Total Assets (RMB billion)	4.7	4.7	9.1	10.1
Total Equity (RMB billion)	2.1	2.1	6.0	6.0
Total Revenue (RMB billion)	1.0	1.3	1.0	0.6
Net Profits (RMB million)	-3.2	58.0	57.6	22.9
EBIT Margin (%)	1.5	7.5	8.0	-
Return on Assets (%)	0.3	2.1	1.2	-
Total Debt/Total Capital (%)	31.1	34.9	26.2	32.5
Total Debt/EBITDA (x)	23.3	7.5	9.6	-
EBITDA/Interest (x)	1.3	4.4	6.8	-
FFO/Total debt (%)	10.4	8.3	9.2	-

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Established in December 2018, LMIG became an important comprehensive state-owned enterprise ("SOE") in Zoucheng City after the consolidation of some local state-owned enterprises in 2024. The Company's diversified business scope covers engineering construction, property development, property management services and leasing, landscaping, as well as trading. LMIG is a wholly-owned subsidiary of ZCLM, an important local infrastructure investment and financing company ("LIIFC") in Zoucheng City, mainly responsible for the infrastructure construction in Zoucheng City, particularly in the Mencius Lake New District. LMIG is the core industrial operating subsidiary of ZCLM specializing in capital operations, industrial investment and urban

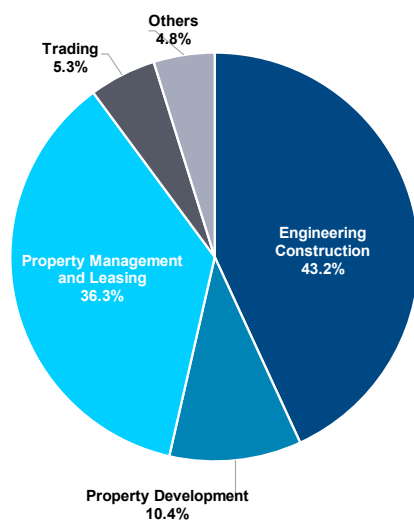
services in Zoucheng City. As of 30 June 2025, the Finance Bureau of Zoucheng City is the ultimate controller of the Company.

#### Exhibit 1. Shareholding chart as of 30 June 2025



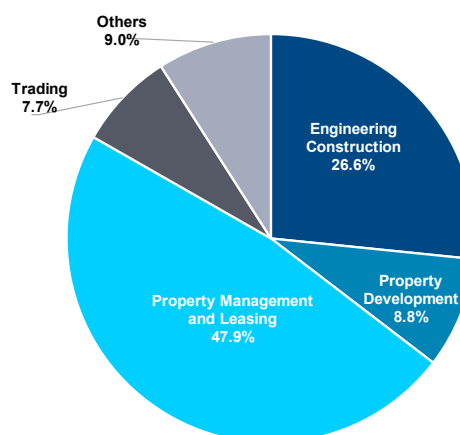
Source: Company information, CCXAP research

#### Exhibit 2. Revenue structure in 2024



Source: Company information, CCXAP research

#### Exhibit 3. Gross profit structure in 2024



## Rating Considerations

### Business Profile

#### Strong regional competitiveness in engineering construction business

LMIG is one of the main engineering construction entities in Zoucheng City, conducting engineering construction and building installation services through its subsidiaries. The Company secures construction projects through public market bidding and holds the Grade II General Contracting Qualification for Engineering Construction

and Grade III General Contracting Qualification for Municipal Public Utilities Engineering. The main clients are state-owned construction enterprises in Zoucheng City. The Company's construction projects typically have a duration of approximately two years, with revenue recognized based on the percentage of completion method. In 2024, the Company had newly acquired 43 construction projects, corresponding to RMB1.4 billion of construction value. Meanwhile, LMIG had 34 projects under construction as of end-2024, with a total value of RMB4.8 billion. The projects under construction mainly include shantytown renovation projects, old residential community redevelopment projects, and industrial park projects, which hold significant importance for local industrial advancement and public welfare. Given the Company's current portfolio of high-value construction projects and sufficient project reserves, its engineering business is expected to grow in the future.

However, the Company's revenue from engineering construction business is subject to significant volatility, largely driven by the cyclical nature of the real estate market and the volatile demand from regional construction projects. From 2022 to 2024, the Company's revenue from its engineering business stood at RMB232.6 million, RMB694.6 million, and RMB452.8 million, respectively. Over the same period, the gross profit margins for the business are relatively low but increasing, which were 1.4%, 2.4%, and 9.0%, respectively. The Company's operating performance of engineering construction business is also affected by clients' financial profile and settlement cycles.

#### **Supplementary income benefited from a relatively diversified business structure**

Apart from engineering construction, the Company has a certain degree of comparative advantage in the regional property management business. The Company's property management services span multiple sectors, including residential properties and commercial office properties, with coverage extending across various domains such as office buildings, hospitals, schools, and apartment complexes. Its service network reaches multiple districts and counties of Jining City, Qufu City and Heze City, serving over 80 residential estates with approximately 54,100 households and nearly 30 commercial properties. By the end of 2024, the Company's total property management area reached 5.7 million square meters. In 2024, LMIG generated RMB268.9 million in revenue from this business, representing a year-on-year ("YoY") increase of 12.5% compared to 2023. Moreover, the gross profit margin for the property management business remained at a decent level of around 15.3%.

LMIG also engages in property development business, and its real estate projects are primarily concentrated in the new urban area of Zoucheng City. The Company primarily utilizes self-raised funds for commercial housing projects development, with sales commencing upon projects completion. As of 30 June 2025, the Company had completed 6 property development projects in total, with a total investment of RMB1.9 billion. The majority of these projects had been sold out, with total sales payback around RMB2.4 billion, indicating relatively good capital recovery performance. Moreover, the Company had 2 residential housing projects under construction, with a total investment of RMB1.5 billion, and uninvested amount of RMB1.0 billion. Given the downturn in China's real estate market in recent years and the fact that one of the Company's property development projects has entered its final sales phase, the Company's property development revenue declined to RMB109.6 million in 2024, compared with RMB259.9 million in 2023. Considering the relatively large remaining investment required for the Company's property development projects under construction, it may face certain sales execution risks and inventory destocking challenges in the future.

The Company's leasing business primarily focuses on assets such as office buildings, sewage treatment pipelines, heating pipelines, and medical equipment. Since most of the leased assets were transferred by the Company's parent company without compensation, the commercial risks faced by the Company in its leasing

business are moderate. In 2024, the Company's leasing business generated revenue of RMB112.1 million, with a corresponding gross profit margin of 28.4%, demonstrating relatively strong profitability. However, potential future changes in the regional economic environment may impact the stability of the Company's rental cash flows.

LMIG also engages in commodity trading, with its primary trade products being stone and coal. This business segment can generate supplementary revenue for the Company. In 2024, the Company generated RMB55.7 million in commodity sales revenue, representing a YoY decrease of 3.9%. The gross profit margin declined from 39.9% to 21.1%, yet remained at a relatively high level. The decline in the gross profit margin of the Company's trading business was primarily attributed to decreased demand in the construction industry. Additionally, the company's trading business faces a certain level of concentration risk, with its primary downstream customer being Zoucheng City Urban Construction Industrial Development Co., Ltd.

The Company also undertakes landscaping projects including urban green space management and tree planting operations. It secures projects through competitive tendering and charges associated maintenance fees. The Company's landscaping services primarily cater to local SOEs in Zoucheng City, with revenue remaining relatively stable in recent years, but accounted for relatively small proportion of total revenue. LMIG recorded RMB40.2 million of revenue from landscaping services in 2024, up by 55.5% as compare with 2023. Meanwhile, the gross profit margin for this business stood at 21.6%. The increase in revenue was primarily driven by the Company's successful acquisition of multiple new landscaping projects in 2024.

## Financial Profile

### Relatively weak profitability along with low return on assets

Despite maintaining stable revenue scale in recent years, the Company's overall revenue base remains relatively small. From 2022 to 2024, the Company's total revenue stood at RMB815.7 million, RMB1.2 billion, and RMB1.0 billion, respectively. The Company's larger revenue scale in 2023 stemmed from faster sales progress in property development projects alongside a greater number of completed projects in the engineering construction business. In 2024, the Company achieved total revenue of RMB1.0 billion, with the largest contribution coming from engineering construction business (43.2% of total revenue), followed by property management and leasing (36.3%), real estate sales (10.4%), and commodity sales and others (10.1%).

LMIG's profitability is relatively weak, as reflected by the relatively low EBIT margin and the weak return on assets. Although the Company's EBIT margin increased from 1.5% in 2022 to 8.0% in 2024, it still remained at a relatively low level. The increase in the Company's EBIT margin was primarily driven by the inclusion of the diversified commercial business, such as leasing and property management, which contributed to a higher overall profit level. From 2022 to 2024, the Company's return on assets ("ROA") was 0.3%, 2.1%, and 1.2%, respectively. However, the decline in ROA in 2024 was primarily due to the consolidation of several subsidiaries, which significantly increased the total asset base. These subsidiaries mainly engage in property management, trading, and landscaping services, which contributed considerable revenue to the Company. Considering the Company's regional competitiveness in engineering construction business and continuous expansion in its property management business, we expect the Company's revenue to retain stable over the next 12 to 18 months. However, its profitability is expected to remain relatively weak.

### Increasing debt burden and relatively weak debt serving capability

LMIG's total debt increased over the past three years as a result of its increasing investment on the ongoing construction projects in its pipeline and the expansion of its business scope. As of 30 June 2025, the Company's

total debt increased to RMB2.9 billion from RMB930.2 million as of end-2022, while its capitalization ratio (total debt to total capital) increased to 32.5% from 31.1% over the same period, indicating a moderate level of debt leverage. The decline in the Company's debt leverage was primarily due to substantial capital injections from its parent company in 2024, which directly increased its total equity to RMB6.0 billion as of 30 June 2025 from RMB2.1 billion in 2023. However, the Company is facing increasing short-term debt pressure. Its short-term debt increased from RMB420.4 million in 2022 to RMB1.6 billion as of 30 June 2025, with short-term debt accounting for 57.0% of total debt, which may lead to higher refinancing pressure.

The Company's stand-alone debt serving metrics remained relatively weak over the past three years. The Company's three-year average EBITDA coverage ratio (EBITDA/interest expense) was relatively low at around 4.2x, and the three-year average total debt/EBITDA ratio was around 13.4x. Moreover, the Company's FFO/total debt ratio decreased to 9.2% in 2024 due to its ongoing investment in project construction. Given the Company's large capital expenditure pressure on the engineering construction and property development projects, we expect the Company's debt level will gradually increase over the next 12-18 months.

### **Modest liquidity position alleviated by access to funding channels**

LMIG has a modest liquidity position, as its total asset mainly consists of inventories, account receivables and intangible assets. The Company's account receivables, inventory, and intangible asset together accounted for 64.0% of the total assets as of 30 June 2025. The Company's inventory mainly consisted of project construction cost and sand and gravel resources transferred by the local government, and its intangible assets are mainly the mining operation rights with low liquidity. Additionally, the Company made a bad debt provision of approximately RMB11.0 million against its accounts receivable and other receivables. Besides, the Company had some assets pledged for loans, which could undermine its financial flexibility. The pledged assets include cost of construction projects, cash, and mineral operation rights, with a total amount of RMB2.6 billion and accounting for around 28.4% of total assets as of 30 June 2025.

LMIG's liquidity profile could be partially alleviated by its access to external financing channels such as bank loans, bond issuance, and non-standard financing. Bank loans are the main source of funding, which accounted for around 82.5% of the total debts as of 30 June 2025. The Company maintains long-term and close relationships with state-owned commercial banks and joint-stock commercial banks. As of 31 December 2024, LMIG has obtained standalone credit facilities of RMB1.5 billion, with an available amount of RMB134.5 million. In terms of direct financing, the Company issued one tranche of private corporate bond in December 2024, raising RMB300.0 million at a coupon rate of 3.0%, which is guaranteed by Chongqing Sanxia Financing Guarantee Group Co., Ltd. Additionally, the Company has obtained RMB186.5 million of government special funds for its construction projects as of 30 June 2025, which feature lower costs and can effectively reduce its overall financing expenses. The Company has relatively low exposure to non-standard financing, accounting for less than 5.0% of the total debts.

### **External Support**

#### **High likelihood to receive support from the parent company**

We expect a high likelihood of parental support from the ZCLM in times of need. Our expectation incorporates the considerations of the Company's (1) status as the one of the core subsidiaries of ZCLM; (2) ultimate control by the Finance Bureau of Zoucheng City; (3) regional importance in industrial investment and urban operation in Zoucheng City; and (4) good track record of receiving ongoing parental support.

Zoucheng City ranked 46th among CCID's Top 100 Counties in China in 2024, with good traffic advantages and rich coal resources. It has developed "1+5" pillar industries including digital economy, intelligent equipment manufacturing, high-end green chemical, new energy and new material, health medicine, and industrial robot, simulating Zoucheng City's economic growth in recent years. Supported by abundant resources, several large energy enterprises have settled in Zoucheng City, including Yankuang Energy Group Company Limited and Huadian Power International Zouxian Power Plant. Zoucheng City is the largest county/district in Jining City by GRP. It had a GRP of RMB110.4 billion in 2024, representing a YoY increase of 6.2%, and its GRP accounted for 18.8% of Jining City's GRP. In the first half of 2025, Zoucheng City's GRP stood at RMB60.9 billion, representing a YoY increase of 5.8%. In terms of fiscal balance, the general public budget revenue of Zoucheng City reached RMB9.6 billion in 2024, representing a YoY increase of 5.5% compared to 2023. Furthermore, Zoucheng City maintained a sound fiscal balance, with its fiscal balance ratio (general budget revenue / general budget expenditure) exceeding 100% in 2024.

ZCLM is one of the key local infrastructure investment and financing companies ("LIIFCs") in Zoucheng City, responsible for infrastructure construction in Zoucheng City, particular in the Mencius Lake New District. The Company also diversified its business scope into infrastructure construction, engineering construction, property sales, property management, landscaping and product sales. ZCLM maintains a high degree of control over the operations of LMIG, including the formulation of business strategies and the appointment of the Board of Directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to ZCLM and the Zoucheng Municipal Government.

Given its regional importance in industrial development and urban operations in Zoucheng City, LMIG has a good track record of receiving support from its parent company ZCLM, including equity transfer, financial subsidies, and capital injection. As the primary operating subsidiary of ZCLM, the Company contributes a large portion of assets and profits to ZCLM, accounting for 36.5% of ZCLM's total assets as of 30 June 2025 and 72.6% of its total revenue in 2024. In 2024, under the guidance of the Zoucheng Municipal Government, ZCLM transferred equity interests in eight subsidiaries to the Company, which has significantly increased the Company's total assets and broadened its business scope. Meanwhile, the Company's capital reserve increased rapidly from RMB1.9 billion in 2022 to RMB5.6 billion in 2024.

Additionally, in 2024, the Company received a capital injection of RMB99.0 million from its parent company, increasing its paid-in capital to RMB100.0 million. In terms of asset transfers, LMIG has received substantial supports from ZCLM. Almost all of the Company's leasable assets (office buildings, pipeline networks, medical equipment) and commodity sales materials (sand and gravel) were transferred from its parent company in 2024, which has effectively reduced the debt leverage level of the Company, while providing it with a relatively stable income stream in the future. Given its important position in local economic and industrial development, we believe that LMIG will receive ongoing support from its parent company in the future.

## ESG Considerations

LMIG is exposed to environmental risks due to undertaking engineering construction. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it plays an essential strategic role in the development of Zoucheng City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.



LMIG's governance considerations are also material as the Company is subject to oversight by Zoucheng Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).



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