

## Credit Opinion

21 October 2024

### Ratings

Senior Unsecured Debt Rating	A <sub>g</sub> -
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Wuhan Wuchang State-owned Assets Holding Investment and Operation Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Wuhan Wuchang State-owned Assets Holding Investment and Operation Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Wuhan Wuchang State-owned Assets Holding Investment and Operation Group Co., Ltd. ("WSHG" or the "Company") reflects (1) Wuchang District Government's very strong capacity to provide support, and (2) the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Wuchang District Government's capacity to support reflects its status as one of the core urban areas of Wuhan City with good industrial base, ongoing economic growth, and good fiscal stability.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) status as the most important state-owned asset investment and operation entity in Wuchang District; (2) strong position in project management services and resettlement housing projects of Wuchang District; and (3) good track record of receiving ongoing government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) rapid debt growth and moderate asset liquidity; and (3) financing channels that need to be broadened.

The stable outlook on WSHG'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 Wuchang District.

## Rating Drivers

- Status as the most important state-owned asset investment and operation entity in Wuchang District
- Strong position in project management services and resettlement housing projects of Wuchang District
- Medium exposure to commercial activities
- Good track record of receiving ongoing government support
- Rapid debt growth and moderate asset liquidity
- Financing channels need to be broadened

## 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 strengthens 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 or decrease in government payments.

## Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	12.0	14.6	15.4	20.1
Total Equity (RMB billion)	6.0	6.1	6.1	6.9
Total Revenue (RMB billion)	1.2	2.4	2.5	0.6
Total Debt/Total Capital (%)	14.0	14.3	33.5	49.2

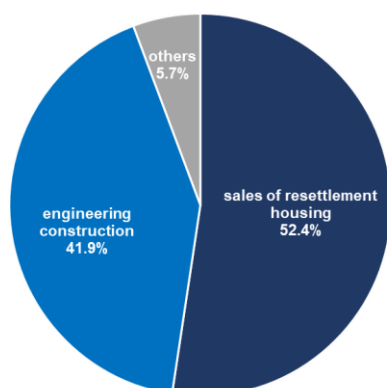
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Established in 2019, WSHG is the most important state-owned asset investment and operation entity in Wuchang District, which plays an important role in state-owned asset investment and operation in Wuchang District. The Company is primarily focused on the local project management services and resettlement housing projects. Additionally, it is also involved in engineering consultation, property development and leasing business. WSHG is ultimately controlled and 100% owned by the State-owned Assets Supervision and Administration Bureau of Wuchang District, Wuhan City ("Wuchang SASAB").

## Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Support

We believe that Wuchang District Government has a very strong capacity to provide support given its status as one of the core urban areas of Wuhan City with good industrial base, ongoing economic growth, and good fiscal stability.

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 2023, which reached RMB5.6 trillion with a year-on-year ("YoY") increase of 6.0%. Its general budgetary revenue increased from RMB328.3 billion in 2021 to RMB369.2 billion in 2023, as a result of a significant increase in tax revenue to RMB 267.2 billion with a relatively high YoY growth rate of 10.8%.

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 industry. Thanks to industrial production and consumption recovery after the epidemic, the GRP of Wuhan City achieved RMB2.0 trillion in 2023, ranking first among all cities in Hubei Province, with a YoY increase of 5.7%. In the first half of 2024, Wuhan City achieved GRP of RMB997.5 billion, a YoY increase of 5.3%. Wuhan Municipal Government's fiscal strength also improved along with the economic growth, its general budgetary revenue had increased from RMB157.9 billion in 2021 to RMB160.1 billion in 2023, of which tax income accounted for more than 80% on average during the period. Besides, Wuhan City has a good fiscal balance, with a general budgetary revenue/general budgetary expenditure ratio of 70.5% on average over the past three years. However, Wuhan Municipal Government's debt burden was growing rapidly with an outstanding direct government debt of RMB684.6 billion at end-2022, accounting for 34.2% of its GRP and 190.8% of its total fiscal revenue.

**Exhibit 2. Key Economic and Fiscal Indicators of Wuhan City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,771.7	1,886.6	2,001.2
GRP Growth (%)	12.2	4.0	5.7
General Budgetary Revenue (RMB billion)	157.9	150.5	160.1
General Budgetary Expenditure (RMB billion)	221.6	222.3	220.4
Local Government Debt (RMB billion)	557.4	629.5	684.6

Source: Statistics Bureau of Wuhan City, CCXAP research

Located in southeast of Wuhan City, Wuchang District is one of the main urban areas of Wuhan City. Led by the headquarters economy, Wuchang District has initially established a "1+8" industrial layout with the coordinated development of industries including financial services, engineering design, cultural tourism, commercial business, information technology, smart data, biomedicine, new energy and environmental protection. From 2021 to 2023, the GRP of Wuchang District increased from RMB166.4 billion to RMB189.0 billion, ranking third among all districts in Wuhan City. However, Wuchang District Government's general budgetary revenue has decreased slightly from RMB14.0 billion in 2021 to RMB13.7 billion in 2023 due to tax refund. Nevertheless, Wuchang District has good fiscal stability. For the past three years, its average tax income accounted for 93.0% of general budgetary revenue. It also has good fiscal self-sufficiency, as reflected by its average fiscal balance ratio of around 119.8% over the past three years. Wuchang District Government reported outstanding governmental debt of RMB26.9 billion at end-2023, representing 14.2% of GRP. In the first half of 2024, Wuchang District's economy grew steadily, achieving a GRP of RMB89.7 billion, a YoY increase of 5.0%.

**Exhibit 3. Key Economic and Fiscal Indicators of Wuchang District**

	2021FY	2022FY	2023FY
GRP (RMB billion)	166.4	177.2	189.0
GRP Growth (%)	10.4	4.2	5.9
General Budgetary Revenue (RMB billion)	14.0	13.6	13.7
General Budgetary Expenditure (RMB billion)	11.1	11.9	11.5
Local Government Debt (RMB billion)	21.9	25.8	26.9

Source: Statistics Bureau of Wuchang District, CCXAP research

**Government Willingness to Support****Most important state-owned asset investment and operation entity in Wuchang District**

As the most important state-owned asset investment and operation entity with the largest assets in Wuchang District, the Company is mainly responsible for the management of construction projects for public service facilities and resettlement housing projects in Wuchang District. The Company has a strong market position in undertaking public policy projects in Wuchang District and has made great contributions to local economic and social development. Given its strategic importance to the urban construction of Wuchang District, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

**Strong position in project management services and resettlement housing projects of Wuchang District**

The Company primarily engaged in the project management of social welfare projects, municipal infrastructure projects, and public facility constructions. These projects mainly include pipeline network upgrade and renovation, renovation of old residential areas, and transportation infrastructure supporting projects. The Company has large number of projects in the pipeline, which can ensure the business sustainability.

The Company is responsible for managing the whole process of project construction, including project preliminary approval, project contracting, and construction management. Besides, the Company has no financial pressure as the project construction funds shall be provided by the project owner. As of 30 June 2024, the Company provides project management services for 50 projects under construction or planning with a total estimated investment of RMB2.3 billion. The large number of projects in the pipeline can ensure the sustainability of this business. However, the Company only charges a small amount of fees for project management services, making a limited contribution to its revenue.

In addition to the management of urban infrastructure projects, the Company also participated in resettlement housing projects. Most of the real estate development projects are sold for reconstruction and resettlement. The purchasers have made relatively timely payments, providing a certain guarantee for the funding source of the project construction. As of 30 June 2024, the Company had completed 5 public rental housing projects, with a total investment of RMB4.4 billion, and projects repayments of RMB3.4 billion. It also has 3 projects under construction or planning with a total investment amount of RMB8.1 billion and an uninvested amount of around RMB4.2 billion. However, uncertainty exists in this business as it is highly subject to local government planning and the local real estate market, which may also exert higher volatility during the downturn of China's property market.

### **Medium exposure to commercial activities**

WSHG's commercial businesses mainly include engineering construction and leasing businesses. In addition, the Company is also involved in property services and testing services in Wuchang District, but these businesses have limited contribution to the Company's revenue. We consider the Company's exposure to commercial businesses to be medium, accounting for around 30% of its total assets.

The Company participates in engineering construction business through its subsidiary, which is one of the major contributors to its revenue. It has first-level general contracting qualifications for municipal public engineering construction. It obtains the general contracts through a public bidding process and is mainly engaged in the construction of housing, landscaping, highway engineering, interior decoration and bridges. The Company first collects a certain percentage (usually 30%) of total investment as the advance payment from the project owner; the owner pays the remaining project fee according to the progress of the project. As of 30 June 2024, the Company had completed 5 engineering construction projects, with a total contract amount of RMB803.5 million and had achieved total project payments of RMB478.0 million. In the meantime, the Company was also involved in 5 engineering construction projects under construction, with an aggregate contract amount of RMB2.4 billion. Overall, the Company has the contract at hand with a total value of RMB3.2 billion, which can ensure its business sustainability. However, the engineering construction business has a relatively long construction period and slow repayment collection, which brings a certain pressure on construction payments from the owner during the downturn in the construction industry.

The Company also engages in property leasing business. Its rental property mainly includes office buildings and commercial properties. The assets are primarily from the Company's self-construction and government transfers, with a small portion of leased-in assets. As of 30 June 2024, the Company owned 5 property assets with a total leasable area of 54 thousand square meters and an average occupancy rate of 98%. It also has two property projects under construction, with a total planned investment of RMB2.5 billion and an uninvested amount of around RMB1.4 billion. Given the relatively large investment in self-operating projects under construction, we expect the Company may face large capital expenditure pressure and its exposure to commercial activities will increase in the future.

### **Good track record of receiving ongoing government support**

As a significant state-owned enterprise wholly owned by and under the direct supervision of the Wuchang SASAB, the Company has a proven history of receiving support from the Wuchang District Government through various channels including subsidies, asset allocation, and capital injection. Since its establishment in 2019, the Company has received equity transfers from the Wuchang District Government, strengthening its capital strength and broadening its business structure. From 2021 to 2024H1, the Company had received a capital injection of RMB1.3 billion from the Wuchang District Government. It also has received support from the government in subsidies totaling RMB7.2 million during the same period. Additionally, Wuchang SASAB has also injected assets of RMB3.2 billion into the Company from 2021 to 2024H1. Considering its important position in Wuchang District, we expect the local government will provide ongoing support to the Company in the future.

### **Rapid debt growth due to ongoing investments in construction projects**

WSHG has a rapid debt growth mainly due to ongoing financing for the construction projects. The Company's total debt increased from RMB968.3 million at end-2021 to RMB6.7 billion at mid-2024, with a total capitalization ratio of 49.2%. In addition, the Company has certain short-term debt repayment pressure. As of 30 June 2024, its short-term debt accounted for about 23.8% of total debt, and its cash to short-term debt ratio was 0.3x. Given its high capital expenditure pressure, we expect the Company's debt burden to continue to increase in the next 12 to 18 months. In addition, the Company does not bear any contingent risks. As of 30 June 2024, the Company had no external guarantees.

### **Moderate asset liquidity**

WSHG has modest asset liquidity, which may undermine its financing flexibility. As of 30 June 2024, the Company's total assets mainly consisted of inventories and receivables, all with low liquidity, accounting for 34.2% of total assets. Inventories mainly represent the investment costs of property projects, while the receivables mainly consist of uncollected payments from the engineering construction projects and local government. Investment properties can generate a certain amount of property fees and rental income annually, but the income scale is relatively small. Furthermore, as of 30 June 2024, the Company had pledged assets of RMB5.1 billion for loans, accounting for 25.5% of total assets.

### **Financing channels need to be broadened**

The Company has sufficient standby liquidity, but the financing channels need to be broadened. It mainly relies on bank loans for funding. As of 30 June 2024, bank loans accounted for 87.3% of the Company's total debt, with an average interest rate of around 4.7%. It maintains a good relationship with domestic policy and commercial banks, such as the Agricultural Bank of China and China Construction Bank. As of 30 June 2024, it had obtained total credit facilities of RMB12.1 billion, with an unutilized amount of RMB6.6 billion, indicating sufficient standby liquidity. However, the Company has not issued bonds in the public market and plans to tap the bond markets to broaden its funding channels. Besides, it has a relatively low reliance on non-standard financing, accounting for around 12.7% of total debt.

## **ESG Considerations**

WSHG 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, WSHG has played a crucial role in the social welfare of Wuhan City by involving the construction of public projects and resettlement housing projects in Wuchang District.

In terms of corporate governance, WSHG'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**

WSHG's senior unsecured debt rating is in equivalent to its long-term credit rating. We believe that government support will flow through the Company given its status as the most important state-owned asset investment and operation entity in Wuchang District, 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 \(July 2022\)](#).

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