Credit Opinion

10 February 2025

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

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Iris Chen +852-2860 7132
Credit Analyst
iris_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Hubei United Development Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g+ to Hubei United Development Investment Group Co., Ltd., with stable outlook.

Summary

The A_g+ long-term credit rating of Hubei United Development Investment Group Co., Ltd. ("HBUI" or the "Company") reflects the Hubei Provincial Government's (1) excellent capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the Hubei Provincial Government's capacity to provide support reflects its economic and political importance in China, with steady economic growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) leading position as the sole provincial platform responsible for the full life cycle of new town development in Hubei Province; (2) high sustainability of public policy businesses, with large number of high-quality resources such as equities and land assets; and (3) solid track record of receiving government support.

However, the rating is constrained by the Company's (1) high exposure to commercial activities with large capital expenditure; (2) increasing debt burden driven by large investment needs; and (3) moderate asset liquidity.

The stable outlook on HBUI's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its leading position in the urban development and operation in Hubei Province.

Rating Drivers

- Leading position as the sole provincial platform responsible for the full life cycle of new town development
- High sustainability of public policy businesses, with large number of high-quality resources such as equities and land assets
- High exposure to commercial activities with large capital expenditure
- Solid track record of receiving government support
- Increasing debt burden driven by large investment needs
- Moderate asset liquidity
- Strong access to funding from banks and bond markets

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in Company's characteristics enhance the local government's willingness to provide support, such as reduced exposure to risky commercial activities, enhanced debt management and improved asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in Company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and weakened financing abilities.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	223.7	286.0	345.9	359.8
Total Equity (RMB billion)	56.9	59.3	71.9	72.5
Total Revenue (RMB billion)	37.2	94.5	115.0	32.3
Total Debt/Total Capital (%)	77.3	78.0	74.5	74.4

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2008, HBUI, formerly known as Hubei United Development Investment Co., Ltd., is an important local infrastructure investment and financing Company ("LIIFC") in Hubei Province. The Company serves as a comprehensive operator throughout the entire life circle of science and technology parks, industrial parks, and functional parks in Hubei Province, especially in Wuhan Metropolitan Area. It also engages in engineering construction, industrial supply chain services, industrial finance and other activities. As of 31 March 2024, the Company's controlling shareholder was Hubei United Investment Group Co., Ltd. ("HBUG"), directly holding 59.5% of the Company's shares, and the Company was ultimately controlled by the State-owned Assets Supervision and Administration Commission of Hubei Province ("Hubei SASAC").

Exhibit 1. Revenue structure in 2023

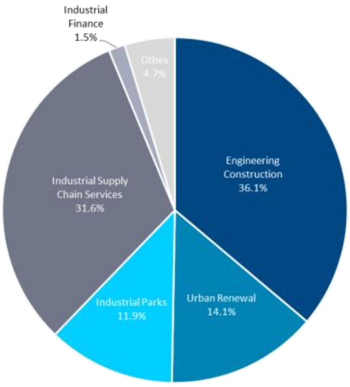
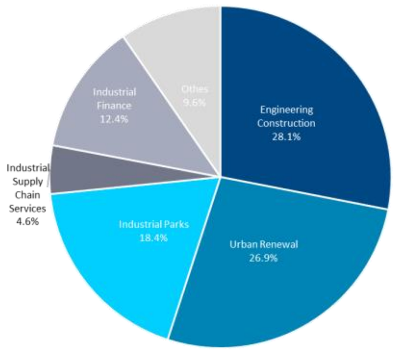
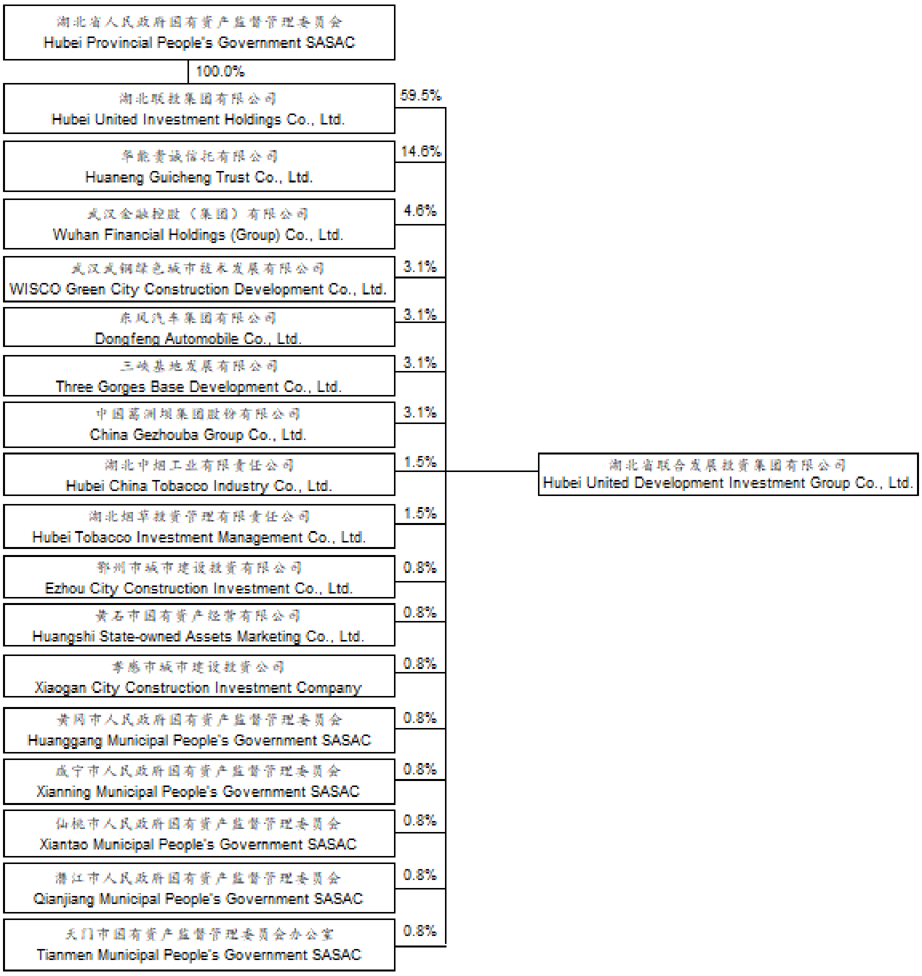


Exhibit 2. Gross profit structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Shareholding structure as of 31 March 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Hubei Provincial Government has a strong capacity to provide support to the Company, given its economic and political importance in China, with steady economic growth.

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. On the back of its geographical advantages, Hubei Province was 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%. In the first three quarter of 2024, Hubei Province achieved GRP of RMB4,165.5 billion with a YoY increase of 5.7%. Hubei Province has strong financial strength. Its general budgetary revenue increased from RMB328.3 billion in 2021 to RMB369.2 billion in 2023, with good fiscal stability as tax income contributed to over 70% of the general budgetary revenue over the past three years. Government fund revenue is an important supplement to the Hubei Provincial Government's financial resources, but it is greatly affected by the land market condition. In 2023, affected by the weakening of the real estate market, government fund revenue of Hubei Province dropped to RMB259.7 billion. Its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 39.7% in 2023, which was at a relatively weak level. Moreover, Hubei Province's debt burden is relatively heavy as its outstanding government debt amounted to RMB1,562.6 billion at end-2023, accounting for about 28.0% of GRP.

Exhibit 4. Key economic and fiscal indicators of Hubei Province

	2021FY	2022FY	2023FY
GRP (RMB billion)	5,001.2	5,373.4	5,580.3
GRP Growth (%)	12.9	4.3	6.0
General Budgetary Revenue (RMB billion)	328.3	328.1	369.2
General Budgetary Expenditure (RMB billion)	793.7	862.4	929.6
Local Government Debt (RMB billion)	1,193.2	1,390.0	1,562.6

Source: Statistic Bureau of Hubei Province, CCXAP research

Government's Willingness to Provide Support

Leading position as the sole provincial platform responsible for the full life cycle of new town development

There are six main state-owned assets operation entities in Hubei Province, each with clear positioning in the development of the region. As the largest and most important subsidiary of HBUG, the Company is positioned by the Hubei Provincial Government as a comprehensive operator throughout the entire life circle of science and technology parks, industrial parks, and functional parks; a comprehensive service provider for the entire urban renewal industrial chain; a general contractor in all fields of engineering construction; and a comprehensive developer and utilizer of all-element natural resources.

As one of the most important industrial investment and infrastructure construction platforms in Hubei Province, HUBI has played an essential and active role in implementing the local government's major strategic initiatives for urban planning and municipal construction in Hubei Province, especially in Wuhan Metropolitan Area, through undertaking infrastructure and industrial parks construction as well as urban renewal projects in the region, which are beneficial to the local social and economic development. Given the Company's important role in the local economic development, we expect HUBI is unlikely to be replaced by other local SOEs in the foreseeable future.

High sustainability of public policy businesses, with large number of high-quality resources such as equities and land assets

HBUI occupies an important position in the land development and infrastructure construction businesses in Hubei Province, which are crucial to local social and economic development. We believe that the large project reserves can ensure the sustainability of the Company's public-policy businesses. However, the delay in project payment progress has caused a certain degree of occupation of the Company's funds.

The Company is responsible for the new town development in the key area of Wuhan Metropolitan Area, including land demolition, land leveling and infrastructure construction. The Company conducts new town development projects through an agency construction model. Under the agent construction model, HBUI enters into an agency construction agreement with the related departments of the Hubei Provincial Government and the related departments will pay the total costs plus certain markups to the Company annually. Over the years, the Company has completed several large new town development projects in Hubei province. As of 31 March 2024, the Company had 6 new town development projects under construction with a total planned investment of RMB101.9 billion, an uninvested amount of RMB27.9 billion and total received project payment of RMB46.5 billion, indicating large capital expenditure pressure and relatively slow payment collection.

High exposure to commercial activities with large capital expenditure

As one of the most important provincial-level platforms implementing major development strategies and plans for the local government, HBUI also engages in various commercial activities, such as industrial park development, urban renewal, engineering construction, industrial supply chain services, and industrial finance. We consider HBUI's commercial business exposure to be high, as its marked-driven business accounted for over 35% of its total assets as of 31 March 2024. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks.

The Company engineering construction business is the largest income source, generating around 36.1% of total revenue in 2023, and the business is operated by its subsidiaries Hubei Road and Bridge Group Co., Ltd. ("HRBG") and Hubei Industrial Construction Group Co., Ltd. ("HICG"). The Company maintains relatively strong regional competitiveness. In 2023, more than 90% of HRBG's newly signed contracts and over 80% of HICG's newly signed contracts came from Hubei Province. The Company demonstrates good project reserves with good project quality that help support its future business growth. In 2023, HRBG had 146 newly signed contracts with total contracts value of RMB26.0 billion and HICG had 2,332 newly signed contracts with total contracts value of RMB60.5 billion. In addition, the Company's project quality is considered high given most of the Company's clients are the local government, SOEs and local large-sized enterprises that have lesser payment risk. However, the progress of payment collection is extended amid the decelerated property market in China.

The Company is engaged in the industrial supply chain service business, involving sales of asphalt, bulk commodities, coal and building materials, and product warehousing and logistics services. Benefiting from enriching trading products and scale, the revenue of industrial supply chain service business achieved fast growth in recent years, increasing from RMB2.0 billion in 2021 to RMB36.3 billion in 2023. However, the gross profit margin of this business is low at 1.5% in 2023. Meanwhile, the business has a relatively diversified customer and upstream supplier base as the sales from the top five customers accounted for 41.8% of the total sales and the top five suppliers accounted for 44.9% of the total procurement in 2023.

HUBI’s urban renewal business mainly involves real estate development and rental housing development, contributing around 14.1% of total revenue in 2023, after the consolidation of Hubei Qingneng Investment Development Group Co., Ltd (“HQID”). The real estate development projects are undertaken under self-constructed model and joint-venture constructed model. As of 31 March 2024, the Company had completed a series of key real estate projects with total saleable area of 4.8 million square meters (“sqm”) and achieved sales amount of RMB39.7 billion. Besides, the Company had 18 self-constructed projects and 14 joint-venture constructed projects under construction with a total estimated investment of RMB65.5 billion and an uninvested amount of RMB25.1 billion. Meanwhile, the Company had land reserves with area of 393.9 thousand sqm for future development, mainly used for residential projects. Although HUBI's real estate development business has regional advantages with sufficient project reserves, the combined effects of large-scale construction and high destocking pressure may increase its capital expenditure pressure and the uncertainty regarding future sales amid the decelerated property market in China.

The Company participates in the industrial park development business through its subsidiary Donghu Hi-Tech Group Co., Ltd. (Stock Code: 600133.SH), engaging in the development, construction, operation and management of industrial parks. The Company achieves fund balance through sales and operation of the completed projects. As of 31 March 2024, the Company had completed several industrial park projects with a total planned investment of RMB5.9 billion and a relatively good sales rate of around 75.6%. However, income from this business is subject to uncertainty due to relatively long construction period and uncertain future sales. The revenue from industrial park development business has been fluctuated over recent years, which recorded RMB1.3 billion, RMB2.0 billion, and RMB1.2 billion from 2021 to 2023. The future investment in industrial park projects will further increase the Company's capital pressure, but sufficient project reserves provide strong support for the future development. As of 31 March 2024, the Company had 12 industrial park projects under construction with a total estimated investment of RMB11.8 billion and an uninvested amount of RMB7.8 billion.

HUBI’s industrial finance business includes guarantee services and financial leasing services. The Company carries out its guarantee services business mainly through its subsidiary, Hubei Provincial Guarantee Group Co., Ltd., which is the first state-owned provincial-level professional guarantee platform in Hubei Province. The Company carries out its financial leasing business mainly through its subsidiary, Hubei Provincial Financial Leasing Co., Ltd., which adopts sale-leaseback business model for its financial leasing business. From 2021 to 2023, the revenue from industrial finance business increased from RMB1.1 billion to RMB1.8 billion.

The Company also engages in television dramas business through the acquisition of a list company, Wuhan DDMC Culture & Sports Co., Ltd. (“DDMC”, Stock Code: 600136.SH). The acquisition of listed companies can expand business diversification and marketization, but it also increases operational risks and management difficulties.

Solid track record of receiving government support

In recognition of the Company’s vital role in developing Hubei Province, HBUI has received solid support from the local government in terms of financial subsidies and asset injections. The local government transferred shares of several state-owned companies to the Company since its establishment, such as HQID, HRBG and HICG, greatly enhancing its capital strength and broadening its business scope. In addition, HBUI also has a good track record of receiving government payments. From 2021 to 2023, HBUI continuously received government subsidies with a total amount of around RMB488.9 million, including fiscal subsidies, tax refunds, highway subsidies, intercity railway tax refunds, and construction funds, which support its daily operations and future investment. We expect government support for HBUI to continue in light of the Company's important strategic role in the region.

Increasing debt burden driven by large investment needs

HBUI shows a rising debt burden owing to its continuous investment in public-policy projects and commercial activities over the past few years. As of 31 March 2024, the Company's total debt grew from RMB149.0 billion as of end-2021 to RMB187.4 billion, with high total capitalization ratio of 74.4%. Meanwhile, the Company bores a relatively high short-term debt burden with the short-term debt accounting for 38.6% of the total debt. Considering the Company's ongoing investment needs and slow repayment progress of its agency construction projects and the perpetual bond with actual repayment liability included in the equity, we expect that the Company will rely on external financings to meet its capital expenditures and the Company will maintain a relatively high debt level for the next 12-18 months.

The Company has certain exposure to external guarantees while the contingent risk would be controllable. At end-2024Q3, the Company had outstanding external guarantee of RMB2.1 billion, accounting for 2.7% of its net assets.

Moderate asset liquidity

In addition, HBUI's asset liquidity is moderate. The Company's total asset mainly consists of inventories, receivables, and contract assets, which accounted for about 65% of its total assets at end-2024Q1, all of which are considered low liquidity. Inventories and contract assets were mainly investment costs for land development projects, property development and engineering construction projects, and completed commercial housing. The receivables were mainly unreceived payments from the agencies of the government or other state-owned companies. Besides, the Company's debt investment, long term equity investment, investment properties, other equity instruments and other non-current financial assets accounted for around 13.0% of its total assets, generating supplementary income and cash flow to the Company.

Strong access to funding from banks and bond markets

The Company has access to various sources of funding, including bank loans, bond financing and non-standard financing. As of 31 March 2024, around 54.5% of the Company's debt financing was provided by domestic banks, including policy banks and state-owned commercial banks; the Company had obtained total credit facilities of RMB265.6 billion and available credit facilities of RMB132.6 billion, indicating a sufficient liquidity buffer. In addition, it has good access to the bond markets as the proportion of bond financing in the debt structure is relatively high, accounting for around 28.8% of total debts. The Company's bond financing channels are relatively smooth and has a good track record for fund-raising activities in capital market, including corporate bonds, MTNs, PPNs, perpetual bonds, and offshore bonds. As of 31 March 2024, the Company had outstanding bond amount of RMB47.1 billion. Meanwhile, the Company's exposure to non-standard financing is moderate, accounting for around 16.8% of total debt at end-2024Q1. We consider the Company's diversified funding channel can largely fulfill its future capital expenditure.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. HBUI assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

The Company fulfills its social function by providing public services in Hubei Province. HBUI is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Hubei Province. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Structural considerations

HBUI'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 key roles in the industrial development of Hubei Province, 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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address:	Suites 1904-1909, 19/F, Jardine House,
	1 Connaught Place, Central, Hong Kong
Website:	www.ccxap.com
Email:	info@ccxap.com
Tel:	+852-2860 7111
Fax:	+852-2868 0656