

## **CCXAP upgrades Heze Urban Construction Engineering Development Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 20 August, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Heze Urban Construction Engineering Development Group Co., Ltd. (“HUCG” or the “Company”) to BBB<sub>g</sub>+, reflecting Heze City’s rapid and sustained economic growth and the Company’s key strategic position of infrastructure construction and public services in Heze City.

The BBB<sub>g</sub> long-term credit rating of HUCG reflects Heze Municipal Government’s (1) very strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Heze Municipal Government’s capacity to provide support reflects Heze City’s sound economic fundamentals, increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) status as an important infrastructure construction entity with a strong market position in Heze City; and (2) good track record of receiving government supports. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden with moderate liquidity profile; and (3) medium contingent liability risk from external guarantees to local state-owned enterprises (“SOEs”).

### **Corporate Profile**

Founded in 2009, HUCG is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Heze City and the core subsidiary of Heze Investment Development Group Co., Ltd. (“HZID”), which is the largest state-owned capital operation entity, by total assets, in Heze City. HUCG is primarily responsible for infrastructure construction and essential public activities including heat supply and steam supply. It also participates in different commercial activities such as property development, self-operated project construction, and production and sales business. As of 31 December 2023, HZID and Heze City Investment Holdings Group Co., Ltd. held 50.4% and 49.6% shares of the Company respectively, and the Heze Municipal Government was the ultimate controller.

### **Rating Rationale**

#### **Credit Strengths**

**Important infrastructure construction entity with a strong market position in Heze City.** HZID is the largest state-owned asset operation entity in terms of asset size and the key industry investment and financing platform in Heze City, with important strategic position. HUCG is the key subsidiary of HZID and conducts the majority of its businesses. Since its establishment, the Company has played an important role in the implementation of infrastructure construction, and has successfully completed major infrastructure projects.

**Providing essential public services in Heze City.** HUCG provides essential and regional dominant public services in Heze City including heat supply and steam supply. The Company's strategic role in the provision of public services will be strengthened as its heat supply and steam supply businesses continue to expand.

**Good track record of receiving government supports.** HUCG has a good track record of receiving supports from Heze Municipal Government in terms of subsidies, capital injection, special bonds, and project payments. Given the strategically important role of the Company in Heze City and as the essential subsidiary of HZID, we believe that HUCG will continue to receive different kinds of support from the local government and its parent company.

### Credit Challenges

**Medium exposure to commercial activities.** Apart from the public policy activities, the Company also participates in different commercial activities consisting of property development, self-operated project construction and production and sales business. HUCG's exposure to commercial activities is medium as the commercial assets accounted for 20% to 30% of total assets.

**Increasing debt burden with moderate liquidity profile.** Due to the ongoing investment in infrastructure construction projects and self-operated projects, HUCG's total debt increased by 20.8% YoY in 2023. Due to the continuous capital expenditure of construction projects, we estimate the Company would continue to rely on external financing. As a result, its debt burden would moderately increase over the next 12-18 months. Furthermore, HUCG's liquidity was moderate, with a high proportion of inventories and receivables, which limited its financial flexibility.

**Medium contingent liabilities risk from external guarantees to local SOEs.** HUCG bears moderate contingent risk resulting from large external guarantees to local SOEs. Nevertheless, we believe that most of these local SOEs are likely to be supported by the local government when necessary due to the nature of the enterprises, therefore the Company's contingent risk would be controllable.

### Rating Outlook

The stable outlook on HUCG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in infrastructure construction and public services of Heze City over the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) the Company's characteristics change in a way that enhances the local government's willingness to support, such as increased strategic significance and reduced exposure to commercial activities.

#### 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 reduced strategic significance, materially increased exposure to risky commercial activities, or decreased government payments.

### **Rating Methodology**

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

### **Regulatory Disclosures**

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