

CCXAP assigns first-time long-term credit rating of A_g- to Wuhan Wuchang State-owned Assets Holding Investment and Operation Group Co., Ltd., with stable outlook.

Hong Kong, 21 October 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of A_g- to Wuhan Wuchang State-owned Assets Holding Investment and Operation Group Co., Ltd. (“WSHG” or the “Company”), with stable outlook.

The A_g- 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.

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 urban infrastructure 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”).

Rating Rationale

Credit Strengths

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.

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. Considering its important position in Wuchang District, we expect the local government will provide ongoing support to the Company in the future.

Credit Challenges

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.

Rapid debt growth and moderate asset liquidity. WSHG has a rapid debt growth mainly due to ongoing financing for the construction projects. Given its high capital expenditure pressure, we expect the Company's debt burden to continue to increase in the next 12 to 18 months. 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.

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. 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.

Rating Outlook

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.

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.

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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