

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

Hong Kong, 20 August 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Heze Urban Construction Engineering Development Group Co., Ltd. (“HUCG” or the “Company”) at BBB<sub>g</sub>+

The BBB<sub>g</sub>+ long-term credit rating of HUCG reflects the Company’s (1) strong regional competitiveness in engineering construction business and public utility services; and (2) supplementary income and profit from a relatively diversified business mix. However, the rating is constrained by the Company’s (1) relatively stable revenue scale but with low return on assets; (2) increasing debt burden and moderate asset liquidity; and (3) weak debt servicing capability mitigated by diversified financing channels.

The rating also reflects a relatively high likelihood of support from the Heze Municipal Government and its parent company when needed, which is based on the Company’s (1) status as the core subsidiary of Heze Investment Development Group Co., Ltd. (“HZID”); (2) ultimate control by the Heze Municipal Government; (3) regional importance in urban infrastructure construction and public utility services in Heze City; and (4) good track record of receiving government support.

### **Corporate Profile**

Founded in 2009, HUCG is one of the key local states-owned enterprises (“SOEs”) in Heze City and the core operating subsidiary of HZID, which is the largest state-owned capital operation entity by total assets in Heze City. HUCG’s business mainly covers engineering construction, building materials processing and manufacturing, property development, as well as heat and steam supply businesses. As of 31 December 2024, 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**

**Strong regional competitiveness in engineering construction business.** The Company serves as an important engineering construction entity in Heze City, with a strong market position. Most of the Company’s construction projects align strategically with long-term government policies, including industrial park, vocational education center, express highways, and shantytown renovation, thereby driving sustainable social and industrial development within the region while holding pivotal economic significance. On the back of the local government, the Company has strong regional competitiveness in engineering construction.

**Supplementary income and profit from a relatively diversified business mix.** HUCG has also participated in various business activities, including commercial trading, property development, and public utility, forming a relatively diversified business portfolio. We believe

that the Company could increase revenue streams and diversify business risks through the diversification of its business scope, which would have a positive impact on its credit profile.

**Relatively high likelihood of support from Heze Municipal Government and parent company.** We expect a relatively high likelihood of government support from the Heze Municipal Government and HZID to HUCG in times of need. Our expectation incorporates the considerations of the Company's (1) status as the core subsidiary of HZID; (2) ultimate control by the Heze Municipal Government; (3) regional importance in urban construction and public utility services in Heze City; and (4) good track records of receiving government support.

### Credit Challenges

**Relatively stable revenue scale but with low return on assets.** HUCG's revenue scale has been relatively stable over the past two years. Despite the stable revenue structure, the Company's revenue remained relatively low in scale. Meanwhile, HUCG's profitability could be improved, as indicated by its relatively low return on assets ("ROA") and EBIT margin.

**Increasing debt burden and moderate asset liquidity.** HUCG's total debt continued to increase over the past two years as a result of continuous financing for the ongoing construction projects in its pipeline. Meanwhile, the Company faced certain short-term debt pressure, as its short-term debt accounted for a relatively large proportion of its total debt by the end of 2024. Given the substantial capital expenditure required for the development of the Company's diversified businesses, we expect that the Company will rely on external financing to meet its capital expenditures, and the total debt level will continue to increase.

**Weak debt serving capability mitigated by diversified financing channels.** HUCG has relatively weak debt servicing capability. The Company's total debt/EBITDA ratio increased along with decreasing EBITDA interest coverage ratio in 2024. These debt-serving metrics indicate that the Company's operating profits provide weak coverage of its debt and financing costs, making its funding largely dependent on external financing. However, HUCG's weak credit metric could be partially mitigated by its good access to multiple funding channels. The Company's debt was primarily financed through bank loans and bond issuance, along with non-standard financing.

### Rating Outlook

The stable outlook on HUCG's rating reflects our expectation that the Company will maintain its regional competitiveness and importance in Heze City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government and its parent company in the foreseeable future.

### What could upgrade the rating?

The rating could be upgraded if (1) the local government or parent company's capacity and willingness to provide support strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as an improvement in profitability and credit metrics.

### **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 heightened debt leverage or weakened liquidity position.

### **Rating Methodology**

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

### **Regulatory Disclosures**

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