

## Credit Opinion

31 March 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Hebei Bohai Guokong Urban Development Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Hebei Bohai Guokong Urban Development Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Hebei Bohai Guokong Urban Development Group Co., Ltd. ("BHGK" or the "Company") reflects Bohai New Area Huanghua City Government's strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects that Bohai New Area Huanghua City ranked first among all districts and counties in Cangzhou City in terms of GRP and fiscal income, with good fiscal growth and self-sufficiency ability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the most important local state-owned enterprise in Bohai New Area Huanghua City; and (2) good track of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) high reliance on external financing and moderate access to funding.

The stable outlook on BHGK's rating reflects our expectation that the local government's capacity to provide support will be stable; and the Company will maintain its key role in Bohai New Area Huanghua City over the next 12 to 18 months.

## Rating Drivers

- Positioned as the most important local state-owned enterprise in Bohai New Area Huanghua City
- Medium exposure to commercial activities with large investment needs
- Good track record of receiving government support
- Moderate access to funding and high reliance on external financing

## 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 reduced exposure of commercial activities and more diversified financing channels.

### 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 importance, or a deterioration in its debt management.

## Key Indicators

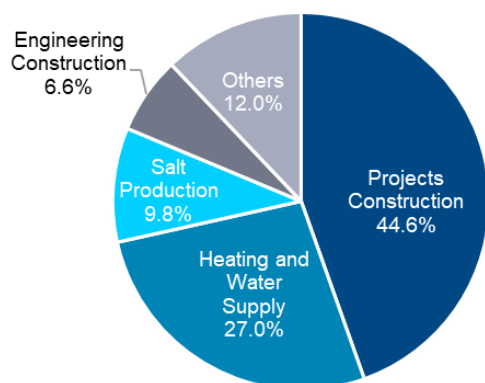
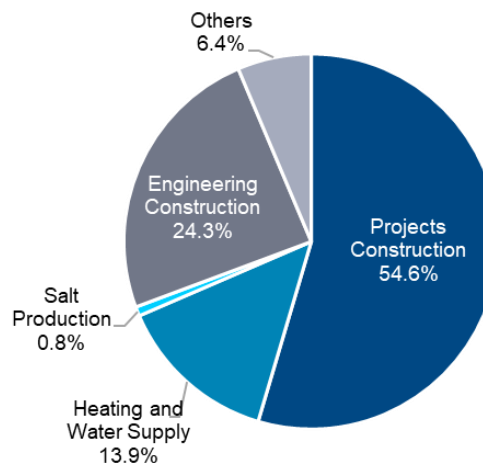
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	1.5	28.2	32.5	34.9
Total Equity (RMB billion)	1.0	16.0	18.0	18.3
Total Revenue (RMB billion)	0.1	0.9	1.8	1.1
Total Debt/Total Capital (%)	0.0	32.3	32.6	34.8

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2017, BHGK is positioned as the most important local infrastructure investment and financing company ("LIIFC") in Bohai New Area Huanghua City. In September 2022, the Finance Bureau of Cangzhou Bohai New Area Huanghua City ("CBNAHC Finance Bureau") injected its 100% equity holdings of Huanghua City Investment Group Co., Ltd. ("HHCI") and Cangzhou Bokong Construction Development Co., Ltd. ("CBCD") into BHGK. BHGK is mainly responsible for the construction of municipal engineering, land development and consolidation, affordable housing development, ecological restoration, and comprehensive river management projects in Bohai New Area Huanghua City. In addition, it conducts commercial activities such as salt production and sales business and the construction and operation of self-operated projects. As of 30 June 2024, the CBNAHC Finance Bureau was the sole shareholder and ultimate controller of BHGK.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Bohai New Area Huanghua City Government has a strong capacity to provide support, based on its status as the first among all districts and counties in Cangzhou City in terms of GRP and fiscal income, with good fiscal growth and self-sufficiency ability.

Hebei Province is a northern province of China with a good location and rich resources such as coal, steel and marine resources. Together with the Bohai Sea, it encloses the direct-administered municipalities of Beijing and Tianjin. Although affected by the policy to reduce capacity in the coal and steel industries, Hebei Province's economic scale has steadily increased over the past five years. In 2023, Hebei Province recorded a gross regional production ("GRP") of RMB4,394.4 billion with a year-over-year ("YoY") growth rate of 5.5%, ranking 12th among all provinces in China. In 2024, according to the preliminary estimation, its GRP increased to RMB4,752.7 billion with a YoY growth rate of 5.4%. Hebei Province is expected to benefit from the promotion of national strategies including the coordinated development of the Beijing-Tianjin-Hebei region and the construction of Xiong'an New District in the future.

Cangzhou City is one of the prefecture-level cities in Hebei Province and an important part of the national strategy, the Hebei Coastal Area Development Plan, and the coastal urban zone of Hebei Province. Relying on its good industrial foundation and port advantages, Cangzhou City has formed five leading industries, including the petroleum processing industry, petroleum and natural gas mining industry, metal products industry, automobile manufacturing industry, and chemical raw materials and chemical products manufacturing industry. In 2023, Cangzhou City achieved a GRP of RMB444.0 billion with a YoY growth rate of 5.8%, ranking third in all the prefecture-level cities in Hebei Province. In 2024, based on preliminary estimation, its GRP increased to RMB472.3 billion with a YoY growth rate of 6.4%. Cangzhou Municipal Government's general budgetary revenue is at a medium level compared with other prefecture-level cities in Hebei Province, while its fiscal balance ability is moderate. Over the past three years, the average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 45.5%. Tax incomes increased to RMB19.2 billion in 2023 from RMB17.0 billion in 2022, accounting for 56.1% of its general budgetary revenue. The local government's debt burden has been increasing over the past three years. As of the end of 2023, Cangzhou Municipal Government's outstanding debt amounted to RMB100.6 billion, accounting for 22.7% of the GRP.

**Exhibit 3. Key economic and fiscal indicators of Cangzhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	416.3	438.8	444.0
GRP Growth (%)	7.0	4.2	5.8
General Budgetary Revenue (RMB billion)	30.0	31.7	34.3
General Budgetary Expenditure (RMB billion)	66.9	71.0	73.1
Local Government Debt (RMB billion)	66.1	80.6	100.6

Source: Statistics Bureau of Cangzhou City, CCXAP research

Located in the southeast of Hebei Province and around Beijing, Tianjin and the Bohai Sea, Bohai New Area, Huanghua City is an important growth point along the coastal economic zone built by Hebei Province and Cangzhou City. In June 2022, the Hebei Provincial Government reformed the governance system of Bohai New Area and Huanghua City and integrated them to form one administrative region, Bohai New Area Huanghua City. There are 5 functional zones under the jurisdiction, which are Gangcheng Industrial Park, Cangzhou Lingang Economic and Technological Development Zone (“Lingang ETDZ”), Zhongjie Industrial Park, Nandagang Industrial Park and Huanghua City Economic and Technological Development Zone. Based on its location and port advantages and the opportunities of management system reform, Bohai New Area Huanghua City focuses on the construction of the coastal economic zone and has initially formed four leading industries including green chemical industry, biomedicine, equipment manufacturing and modern logistics, with well-known enterprises such as Hebei Xinhai Chemical Group Co., Ltd. and Beijing Xiehe Pharmaceutical Co., Ltd. In 2023, Bohai New Area Huanghua City achieved a GRP of RMB80.1 billion, ranking first among all districts and counties in Cangzhou City, and its growth rate was higher than that of Hebei Province and Cangzhou City. It has good financial self-sufficiency with an average fiscal balance ratio of 78.4% over the past three years, but its non-tax revenue ratio is relatively high with an average of 49.6%. The direct government debt burden is relatively high relative to its fiscal income and economic scale. At the end of 2023, the outstanding government debt increased by 23.0% to RMB31.7 billion, representing around 39.5% of the GRP and around 258.8% of fiscal income.

**Exhibit 4. Key economic and fiscal indicators of Bohai New Area Huanghua City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	75.6	81.4	80.1
GRP Growth (%)	-	6.0	6.5
General Budgetary Revenue (RMB billion)	6.8	6.9	7.2
General Budgetary Expenditure (RMB billion)	9.1	8.6	9.0
Local Government Debt (RMB billion)	22.6	25.7	31.7

Note: 1.GRP, general budgetary revenue, and general budgetary expenditure in 2021 are the sum of those of Cangzhou Bohai New Area and Huanghua City;

2.Local government debt in 2021 is the sum of those of Huanghua City, Gangcheng Industrial Park, Lingang ETDZ, Zhongjie Industrial Park and Nandagang Industrial Park.

Source: Management Committee of Cangzhou Bohai New Area, Huanghua City Government, CCXAP research

**Government’s Willingness to Provide Support****Positioned as the most important local state-owned enterprise in Bohai New Area Huanghua City**

In September 2022, the Bohai New Area Huanghua City Government reorganized BHGK and positioned it as the most important local state-owned enterprise (“SOE”) in Bohai New Area Huanghua City undertaking municipal engineering, land development and consolidation, affordable housing development, ecological restoration, and river management projects in the region. There are also other SOEs held by the Cangzhou

Municipal Government operating in the region but each of them has a different position. Hebei State-owned China-Czech Friendship Farm Group Co., Ltd. mainly operates in Zhongjie Industrial Park as the sole entity for infrastructures; and Hebei Bohai Investment Group Co., Ltd. is engaging in infrastructure construction, heat supply and sewage treatment in Gangcheng District and the Huanghua Port.

The project types of BHGK's infrastructure construction business mainly include municipal road networks, land consolidation, and shantytown renovation, and are mainly operated by its subsidiaries HHCI and CBCD. Specifically, as an important urban investment company in Huanghua City, HHCI is responsible for the construction projects within Huanghua City, while CBCD's projects are located in Gangcheng District and Lingang ETDZ. Most of the infrastructure construction projects were constructed through the agency construction model. Under the agent construction model, BHGK signs the agent construction contract with the entrusting parties (mainly the state-owned enterprises in Bohai New Area Huanghua City), raises the funds itself or from financial allocations and charges payment equal to the investment cost plus a certain markup. As of 30 June 2024, there are 3 key entrusted construction projects and one self-construction project completed by BHGK, including shantytown renovation, road extension, road network support projects, and sewage water treatment plant, with a total investment of over RMB6.7 billion. Meanwhile, the Company had several entrusted construction projects under construction with a total investment of around RMB789.4 million. However, the progress of these projects has been slow due to regional fiscal conditions. Based on its experience in infrastructure construction and its status as an important local SOE in Bohai New Area Huanghua City, the Company will continue to undertake infrastructure projects based on regional development demands.

In order to realize the sustainable development of water supply in the entire Huanghua City, the Huanghua Municipal Water Affairs Bureau planned to hand over several water plants and related assets to the Company. According to the Company, when the restructure of water plants is completed, the Company is expected to charge water supply fees in accordance with standards approved by the local government. Meanwhile, BHGK undertakes the Pipeline Network Engineering Renovation and Update Project with a total investment of RMB608 million. This project was not under construction due to the progress of the restructuring of the water plants.

### **Medium exposure to commercial activities with large investment needs**

BHGK has also been engaged in diversified commercial activities, covering salt production and sales business, property leasing and management, heat and water supply in industrial parks, and it also conducts some self-operated projects. Based on our assessment, the Company's exposure to commercial business is medium with such assets accounting for around 30% of its total assets.

BHGK's salt production and sales business is largely operated by its subsidiary, and its main products are raw salt, edible salt, and industrial bromine. Over the past three years, the revenue from this business has shown a fluctuating trend. In 2023, the revenue increased slightly from RMB164.4 million in 2021 to RMB178.1 million, due to the sale of last year's raw salt stock. Gross margins on salt production and sales have been volatile in recent years as a result of fluctuations in the average sales price of raw salt, due to the impact of the development of chemical parks, market demand and weather conditions. Meanwhile, the customer concentration of raw salt sales was relatively high, as its top 5 customers accounted for 45.3% of sales in 2023.

BHGK is engaging in heat and water supply to enterprises located in Lingang ETDZ and Gangcheng District with strong regional monopolistic advantages. BHGK is the only industrial heat supply entity in the Lingang ETDZ, with around 55.0 kilometers of heating pipes and has sold heat to around 100 enterprises, covering an area of around 52.4 square kilometers as of 30 June 2024. However, the profit in heating business is susceptible to price fluctuations in the coal market. As of 30 June 2024, the Company had 6 heating pipes project under

construction, with a total investment of RMB98.3 million and outstanding investment amount of RMB18.3 million. It is expected that the heating supply capacity will improve in the future. BHGK's water supply business mainly covers the several parts of Lingang ETDZ and Gangcheng District, including industrial and residential raw water supply and seawater supply. As of 30 June 2024, the Company had 1 water plant with a designed supply capacity of 25,000 tons per day. Meanwhile, there is one water pipeline project under construction, with a total investment of RMB22.3 million and outstanding investment of RMB0.6 million. The Company's heat and water supply business is affected by the number of companies settled in the park as well as their operating conditions.

BHGK has taken advantage of location advantages or leading industry advantages to carry out self-operated project construction and operations. Key projects include industrial real estate development, housing development, and the construction of Huanghua Port Comprehensive Bonded Zone, and most of the projects are expected to achieve financial balance through sales or leasing. As of 30 June 2024, there were 1 key project under construction with a total investment amount of RMB323.0 million and an outstanding investment amount of RMB204.0 million, as well as 1 project under planning with a total budgeted investment of RMB610.0 million. BHGK's self-operated projects have relatively high capital requirements, and subsequent capital balance and cost recovery cycles are volatile to the progress of local industrial development and changes in the policy environment.

BHGK's leasable assets include factories, business centers and shops, which bring supplemental revenue to the Company. As of 30 June 2024, BHGK has leasable area of more than 350 thousand square meters. The increase in the leasable area is driven by the completion and leasing of a new industrial park in 2024 with a leasable area of approximately 330.0 thousand square meters. However, the occupancy rate is relatively low at around 50%. At the same time, the Company has a pipeline corridor construction completed, which is ready for leasing. BHGK provides property management services in Huanghua City. As of 30 June 2024, it manages a total of 5 property communities with a total management area of 323,700 square meters. The Company achieved property management income of around RMB5.0 million in 2023, while there was a relatively low gross margin due to the large initial investment in community renovation.

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

As an important local state-owned enterprise in Bohai New Area Huanghua City, BHGK has a solid track record of receiving government support in various forms such as equity transfer, financial subsidies, and government payment for construction projects. From 2022 to 2024H1, as the local government continuously injected state-owned enterprise equities and capital into the Company, BHGK's capital reserve increased from RMB15.8 billion to RMB17.3 billion. Meanwhile, BHGK has received a total of around RMB631.3 million in cash injection and RMB56.5 million in government subsidies over the same period. As of 30 June 2024, BHGK has large scale of completed and unsettled infrastructure construction projects in inventories, which accounted for 56.1% of the total assets. Considering that BHGK will continue to undertake local infrastructure construction and urban development functions, the Company is expected to continuously receive government payment for its construction activities.

Given the Company's strategic importance in Bohai New Area Huanghua City, we believe that the local government will provide BHGK with ongoing operational and financial support.



**Exhibit 5. Track Record of Government Support from 2022FY to 2024H1**

(RMB million)	2022FY	2023FY	2024H1
Capital Reserve	1,258.8	1,472.0	225.0
Cash Injection	-	482.4	148.9
Equity Transfer	13,437.1	-	-
Government Subsidies	20.0	27.3	9.2
<b>Total</b>	<b>14,715.9</b>	<b>1,981.7</b>	<b>383.1</b>

Source: Company information, CCXAP Research

**Moderate access to funding and high reliance on external financing**

BHGK's debt level increase rapidly in recent years because of its construction projects. As of 30 June 2024, the Company's total debt increased to RMB9.8 billion from RMB7.6 billion at end-2022. The total capitalization ratio, as measured by total debt to total capital, was maintained at a manageable level as support from the local government, which was 34.8% as of 30 June 2024. The Company's debt structure is manageable with long-term debt accounting for more than 70% of total debt. However, as of 30 June 2024, the cash to short-term debt ratio remained moderate at 0.3x, indicating a relatively high refinancing need to cover its short-term debt. Considering the large investment of its projects, we expect the Company to rely on external financing to fulfill its investment needs and its total debt to increase in the next 12-18 months.

BHGK's funding channel is moderate with high reliance on indirect financing. As of 30 June 2024, the Company's bank loans accounted for more than 85.0% of the total debt and direct financing accounted for around 5.1%. Its subsidiary, CBCD, issued a 2-year private corporate bond with a coupon rate of 3.38% in March 2024, raising RMB500.0 million. As a local SOE, BHGK's direct financing ability would be relatively affected by the regional financing environment and policy changes. Meanwhile, its liquidity cushion was limited with no undrawn credit facility, while most of the facilities were provided by different banks such as policy banks, joint-stock commercial banks, and city commercial banks. The Company has manageable exposure to non-standard financing products which are mainly financial leasing. As of 30 June 2024, the Company's non-standard financing accounting for less than 5.0% of the total debt.

**ESG Considerations**

BHGK faces environmental risks because it has undertaken construction business. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

BHGK bears social risks as it implements public policy initiatives by building public infrastructure in Bohai New Area Huanghua City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

BHGK's governance considerations are also material as the Company is subject to oversight by the Bohai New Area Huanghua City Government and must meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

**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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