Credit Opinion

20 August 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g+
Outlook	Stable

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Heze Urban Construction Engineering Development Group Co, Ltd.

Surveillance credit rating report

CCXAP affirms Heze Urban Construction Engineering Development Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Heze Urban Construction Engineering Development Group Co., Ltd. ("HUCG" or the "Company") 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.

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.

Rating Drivers

- Strong regional competitiveness in engineering construction business
- Supplementary income and profit from a relatively diversified business mix
- Relatively stable revenue scale but with low return on assets
- Increasing debt burden and moderate asset liquidity
- Weak debt servicing capability mitigated by diversified financing channels
- Relatively high likelihood of support from Heze Municipal Government and parent company

Rating Sensitivities

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.

Key Indicators

	2022FY	2023FY	2024FY
Total Assets (RMB billion)	26.6	26.7	30.1
Total Equity (RMB billion)	9.3	9.4	12.3
Total Revenue (RMB billion)	4.7	4.2	4.2
Net Profits (RMB million)	104.6	95.1	97.9
EBIT Margin (%)	9.4	10.2	11.5
Return on Assets (%)	1.8	1.6	1.7
Total Debt/Total Capital (%)	42.2	46.7	43.1
Total Debt/EBITDA (x)	11.1	10.6	14.2
EBITDA/Interest (x)	1.8	2.2	1.6
FFO/Total debt (%)	8.9	9.5	6.4

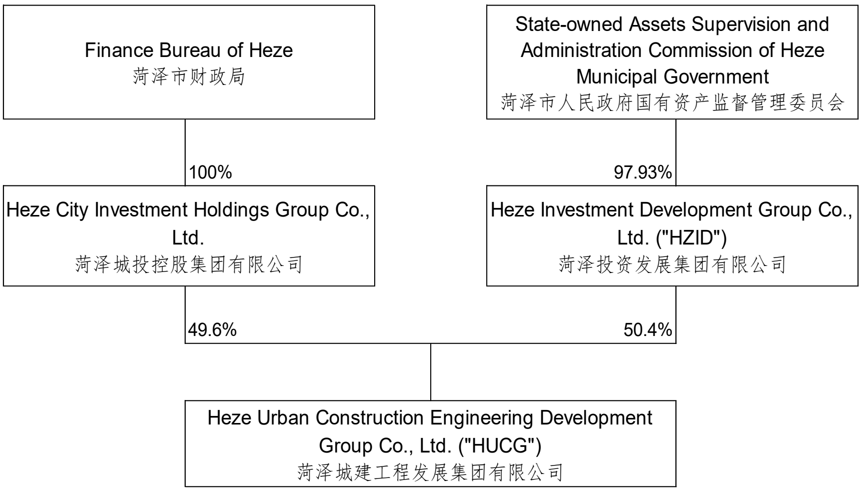
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

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.

Exhibit 1. Shareholding chart as of 31 December 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

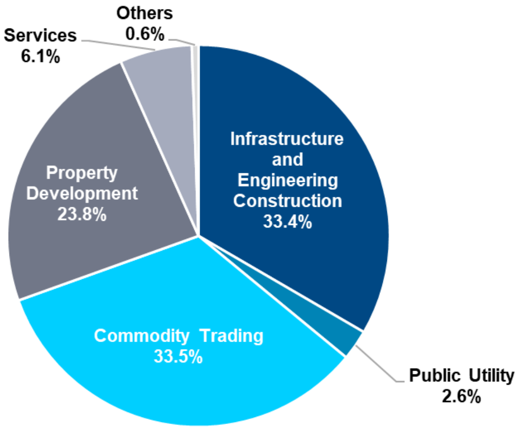
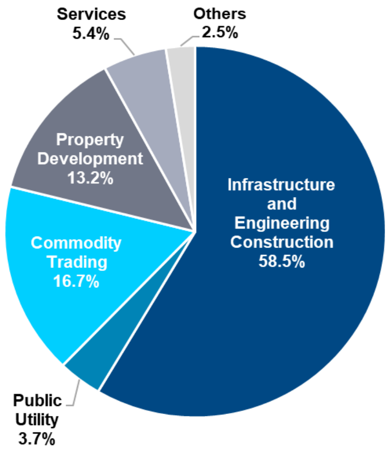


Exhibit 3. Gross profit structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Strong regional competitiveness in engineering construction business

As the important SOE in Heze City and the key subsidiary of the regional largest SOE, HZID, 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.

HUCG possesses a wide range of industry qualifications, enabling it to be more competitive in the tendering market and access to quality projects. For instance, the top-grade general contracting qualification for engineering construction and the Grade I general contracting qualification for municipal engineering. In 2024, the Company realized RMB1.4 billion of revenue from the engineering construction business, up by 1.2% compared to 2023, and the gross profit margin was up from 25.2% in 2023 to 28.4%. In 2024, HUCG has newly engaged 67 high-quality contracts, with contract amount totaling RMB4.5 billion. As of 31 December 2024, the Company had 5 major construction projects under construction, with total investment of RMB1.8 billion, and uninvested amount of RMB1.3 billion. Moreover, the Company has actively expanded its project portfolio beyond Heze City and Shandong Province over the past years, such as Hainan Province, Sichuan Province, and Xinjiang Uyghur Autonomous Region. Therefore, we expect the Company will have more competitiveness and diversification for its engineering construction business in the future.

The Company also engages in self-operated construction projects to promote the development of local industries, including industrial park, vocational education center, and industry-education integration base. The construction costs of such projects are mainly funded by self-raised funds, bank loans, and government special funds. The funds will be balanced by the operating income generated upon completion, such as leasing income, tuition fees, training fees, accommodation fees, and catering income. As of 31 December 2024, the Company had 4 self-operated projects under construction, with total investment of RMB3.9 billion, and uninvested amount of RMB1.2 billion. Considering the relatively large investment amount for the self-operated projects, the Company is expected to face certain capital expenditure pressure in the near term. In addition, the future operating income from those projects may have some uncertainties.

Besides, the Company has participated in Private-Public Partnership (“PPP”) projects. By the end of 2024, the Company’s PPP projects had been completed, with total investment of RMB573.0 million, and the Company was no longer involved in the construction and additional investment. As at end-2024, the Company had received payment totaling RMB108.0 million, but experiencing slower-than-expected repayment.

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. However, certain business segments, such as real estate development, may involve additional operational risks.

HUCG engages in the production and sales of building materials, which could create synergies with its engineering construction business. This segment remains the Company’s largest revenue contributor, generating revenue of RMB1.4 billion in 2024, which accounted for 33.5% of total revenue. However, the performance of this business segment is highly susceptible to the market conditions of the real estate and construction industries, and may face some volatility during the current downturn in China’s property market. The performance of this segment has been impacted by fluctuating market conditions over the past year, with its gross profit margin experiencing a decline from 11.3% in 2023 to 8.1% in 2024. Due to the characteristics of the construction industry, the Company's building materials sales business has a relatively low concentration risk. The top five suppliers and customers account for only 23.3% and 9.6% of total procurement and sales amounts, respectively.

HUCG’s property development business mainly involves the construction and sales of residential and commercial properties in Heze City. In 2024, this business segment achieved RMB989.2 million in revenue, up by 26.6% year-on-year (“YOY”), with a gross profit margin of 9.0%. As of 31 December 2024, the Company had 2 completed residential housing projects, with a total investment of RMB1.3 billion, and these projects have reached full sales absorption. The Company has realized revenue of RMB1.3 billion from these 2 housing projects. Meanwhile, there were 2 residential and commercial projects under construction, with a total investment of RMB2.7 billion and an uninvested amount of RMB326.0 million, of which around 78.3% of the housing had been sold. Additionally, the Company had one property project under planning, which is in the market research stage. Given the current downturn in the real estate market, the Company may face increased uncertainties and sales absorption pressure during project development, sales and operations.

Apart from the commercial housing projects, the Company currently has two resettlement housing projects under construction, with total investment of RMB2.3 billion and outstanding amount of RMB750.0 million. These resettlement housing projects are developed through the agency construction model. In addition, HUGG sold part of the Minjiang Road resettlement housing project (residential housing, commercial shops, and basement storage rooms) under market-oriented method. As of 31 December 2024, the Company realized total sales revenue of RMB1.1 billion from this project, with an overall selling rate of around 45%.

HUCG is one of the major heat and steam suppliers in Heze City, covering the eastern and northern urban area of Heze City. In 2024, the public utility segment generated revenue of RMB106.8 million, with a gross profit margin of 23.4%. The Company's steam supply business has a relatively strong market position in Heze City, providing industrial steam supply to enterprises in multiple industrial parks, such as Heze Modern Pharmaceutical Port and Luxi New District Industrial Park. As at end-2024, HUCG owned steam pipelines of 51.0 kilometers with an annual steam supply capacity of 2.6 million tons. In 2024, the Company supplied approximately 362,000 tons of steam to customers in Heze City, with an average selling price of RMB260.0 per ton. The price of steam supply is determined by the market and is subject to periodic adjustments. In terms of heat supply, the Company had an annual heating supply capacity of 20.0 million square meters as of end-2024, with a total heating pipeline network extending 121.5 kilometers, providing heat supply to more than 4,300 residential users. The heating prices comply with government-guided pricing, thereby the profitability is relatively low. As of end-2024, the Company had a heating pipeline network project under construction, with a total investment of RMB950.0 million and an uninvested amount of RMB279.0 million. Meanwhile, HUCG had a heat supply project under planning, with a total investment of RMB2.0 billion, which is expected to expand its heating coverage to multiple counties within Heze City. Along with the completion of these projects, the revenue from public utility segment is expected to increase.

HUCG participated in other businesses, including education, property management, elevator service, and leasing. However, these segments are relatively small in terms of revenue contribution, and have limited impact on the Company’s overall profit. With the completion and operation of the self-operated projects in the future, it is expected that the Company’s revenues from education, property management, and leasing will continue to increase.

Financial Profile

Relatively stable revenue scale but with low return on assets

HUCG’s revenue scale has been relatively stable over the past two years. The Company achieved a total revenue of approximately RMB4.2 billion in both 2023 and 2024. Despite the stable revenue structure, the Company’s revenue remained relatively low in scale. The commercial trading business is the major revenue contributor, accounting for 33.5% of total revenue in 2024, followed by engineering construction (33.4%) and property development (23.8%).

HUCG’s profitability could be improved, as indicated by its relatively low return on assets (“ROA”) and EBIT margin. Engineering construction remains the main profit contributor, with a high gross profit margin of 28.4%.

The Company's EBIT margin slightly increased from 10.2% in 2023 to 11.5% in 2024, while its ROA stayed consistently low at below 2.0% over the past three years.

Considering the Company's diversified business portfolio and continuous expansion, we expect its total revenue and profit to maintain a growth trend over the next 12 to 18 months.

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. As of 31 December 2024, the Company's total debt increased to RMB9.3 billion from RMB8.2 billion as at end-2023, while its capitalization ratio (total debt to total capital) slightly decreased to 43.1% from 46.7% over the same period, mainly due to the increase in asset scale resulting from the consolidation of a subsidiary. Meanwhile, the Company faced certain short-term debt pressure, as its short-term debt accounted for 49.0% of its total debt by the end of 2024, and the cash to short-term debt ratio was 0.5x. 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.

Additionally, HUCG's asset liquidity remained moderate. As of end-2024, account receivable, inventories, and construction in progress accounted for 63.3% of the Company's total assets. These assets primarily consist of development costs from construction projects and receivables, along with work-in-progress inventories from building material production, which are mainly considered to have low liquidity. Therefore, the Company's financial flexibility may be undermined by its liquidity profile.

Weak debt servicing capability mitigated by diversified financing channels

HUCG has relatively weak debt servicing capability. The Company's total debt/EBITDA ratio increased from 10.6x in 2023 to 14.2x in 2024, while the EBITDA interest coverage ratio decreased from 2.2x to 1.6x over the same period. Moreover, the Company's FFO/total debt ratio decreased to 6.4% in 2024 from 9.5% in 2023, mainly due to its ongoing investment in construction projects. 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.

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. Bank loans are the main source of funding, accounting for more than half of the total debt as of 31 December 2024, with an average financing cost on bank loans of 4.8%. HUCG maintained good banking relationships with policy banks and national commercial banks. As of 31 December 2024, the Company obtained RMB7.4 billion in total credit facilities, of which RMB1.6 billion remained undrawn. In addition, the Company had access to the onshore bond market since 2024. From January 2024 to June 2025, the Company raised RMB2.6 billion in the onshore debt market, with coupon rates ranging from 2.47% to 3.88%. Moreover, HUCG's exposure to non-standard financing was controllable, mainly financial leasing products, accounting for less than 10% of the total debt as at end-2024.

External Support

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.

Heze City is a prefecture-level city of Shandong Province and is located in the southwest of Shandong Province with a good economic foundation. Heze City's GRP has been ranking 8th among 16 prefecture-level cities in Shandong Province over the past three years. Heze City's economic growth is mainly driven by the key industries including the high-end chemical industry, biomedicine, mechanical and electrical equipment manufacturing, new energy and new material, agricultural and sideline products, as well as trade logistics and e-commerce. Heze City's economic strength has been increasing. In 2024, Heze City reported a GRP of RMB480.3 billion, recording an economic growth of 6.1% YoY. The general budgetary revenue increased annually on the back of steady economic growth and development of the key industries. In 2024, the general budgetary revenue rose to RMB32.9 billion from RMB31.7 billion in 2023.In the first quarter of 2025, Heze City reported a GRP of RMB114.1 billion, representing a 5.7% YoY growth.

HZID is the largest SOE in Heze City by asset size, primarily responsible for key infrastructure construction, public utility services, and industrial investment within Heze City, playing a significant role in local urban development and state-owned assets operation.

HUCG has a very important position in HZID's operations, as the primary operating subsidiary in engineering construction as well as the production and sales of building materials businesses. As of 31 December 2024, the Company's total assets and revenue accounted for 42.8% and 50.7% of HZID's total assets and revenue, respectively. Given its important business position, the Company also obtained funding support from the parent company in terms of bank loans, as HZID provided guarantee on a certain proportion of the Company's total debt. Given its essential operating role in HZID, we anticipate a relatively high likelihood of support from HUCG's parent company when necessary.

The Heze Municipal Government maintains a high degree of control over HUCG's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, and performance to the State-owned Assets Supervision and Administration Commission of Heze Municipal Government ("Heze SASAC"). Furthermore, the Company has a high linkage with the local government, as the Company's self-operated projects are aligned with the local government development direction. Given its regional importance in Heze City, HUCG has a good track record of receiving supports from Heze Municipal Government over the past years, including capital injection, financial subsidies, government special bond funds, and project payments. In 2024, the Company continued to receive RMB12.9 million of financial subsidies from the local government, supporting its operations. At the same time, the Company received government special funds of RMB400 million. Moreover, the Company's capital reserve increased by RMB713.0 million to RMB6.9 billion as a result of the disbursement of government special bond funds.

Overall, 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 support from the local government and its parent company.

ESG Considerations

HUCG is exposed to environmental risks due to undertaking key infrastructure construction. 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.

The Company bears social risks as it implements public policy initiatives by playing an important role in the social welfare of Heze 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.

HUCG's governance considerations are also material as the Company is subject to oversight by Heze Municipal Government and has to 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 General Corporate (April 2019).

Appendix

Exhibit 4. Peer Comparison

	Heze Investment Development Group Co., Ltd.	Heze Urban Construction Engineering Development Group Co., Ltd	Heze Finance Investment Group Co., Ltd.
Long-Term Credit Rating	A_g-	BBB_g+	BBB_g+
Shareholder	Heze SASAC (97.9%) and Shandong Caixin Asset Operation Co., Ltd. (2.1%)	Heze Investment Development Group Co., Ltd (50.4%) and Heze City Investment Holding Group Co., Ltd (49.6%)	Heze SASAC (100.0%)
Positioning	Pivotal entity in state-owned capital operation and industrial investment in Heze City	Important entity in engineering construction and urban operation in Heze City	Key entity in infrastructure construction, policy-oriented grain storage, and public transportation in Heze City
Total Asset (RMB billion)	70.4	30.1	38.7
Total Equity (RMB billion)	37.0	12.3	14.8
Total Revenue (RMB billion)	8.2	4.2	4.8
Total Debt/Total Capital (%)	34.3	43.1	43.2

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2024.

Source: CCXAP research

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