Credit Opinion

16 May 2025

Quzhou Qutong Transportation Investment Development Co., Ltd.

Surveillance credit rating report

Ratings	
Senior Unsecured Debt Rating	A_g-
Long-Term Credit Rating	A_g-
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

CCXAP affirms Quzhou Qutong Transportation Investment Development Co., Ltd.'s long-term credit rating at A_g-, with stable outlook.

Summary

The A_g- long-term credit rating of Quzhou Qutong Transportation Investment Development Co., Ltd. ("QTID" or the "Company") reflects (1) Quzhou Municipal Government's very strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Quzhou Municipal Government's capacity to provide support reflects Quzhou City's status as a prefecture-level city in Zhejiang Province, with steady economic growth and good fiscal stability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important strategic role as the transportation infrastructure construction entity in Quzhou City; (2) good access to funding; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) moderate debt management and moderate asset liquidity.

The stable outlook on QTID's rating reflects our expectation that Quzhou Municipal Government's capacity to provide support will remain stable, and the Company will maintain its important strategic role in transportation infrastructure construction in Quzhou City over the next 12 to 18 months.

Analyst Contacts

Jonathan Kwong +852-2860 7133
Credit Analyst
jonathan_kwong@ccxap.com

Jacob Hu +852-2860 7132
Assistant Credit Analyst
jacob_hu@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating, and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Rating Drivers

- Important strategic role as the transportation infrastructure construction entity in Quzhou City
- Medium exposure to commercial activities
- Moderate debt management and moderate asset liquidity
- Good access to funding
- Good track record of receiving government payments

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Quzhou Municipal Government’s capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government’s willingness to provide support, such as strengthened market position, material reduction in commercial business exposure, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Quzhou Municipal Government’s capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government’s willingness to provide support, such as weakened market position, material decrease in government payments, or deteriorated debt management.

Key Indicators

	2022FY	2023FY	2024FY
Total Asset (RMB billion)	36.6	40.5	45.3
Total Equity (RMB billion)	17.7	19.4	19.8
Total Revenue (RMB billion)	3.6	5.0	4.4
Total Debt/Total Capital (%)	45.8	48.9	53.3

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2002, QTID, formerly known as Quzhou Communications Investment Group Co., Ltd., is an important local infrastructure investment and financing company for major transportation infrastructure projects in Quzhou City. It is primarily engaged in transportation construction and operation, as well as power generation. The Company also undertakes commercial activities such as selling construction materials and property development. As of 31 December 2024, the Company was wholly owned by Quzhou State-owned Capital Operation Co., Ltd. (“QSCO”), which directly held 51% of the Company’s stakes and indirectly held the remaining 49% through its subsidiary Quzhou Holding Group Co., Ltd. In 2024, the State-owned Assets Supervision and Administration Commission of Quzhou Municipal Government (“Quzhou SASAC”) transferred its equity in QSCO to its wholly controlled subsidiary, Quzhou State-owned Assets Holding Group Co., Ltd. As of 31 December 2024, the Company’s ultimate controlling owner is still Quzhou SASAC.

Exhibit 1. Revenue structure in 2024

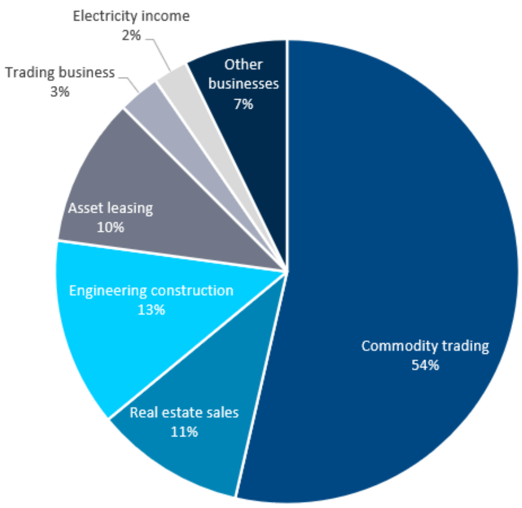
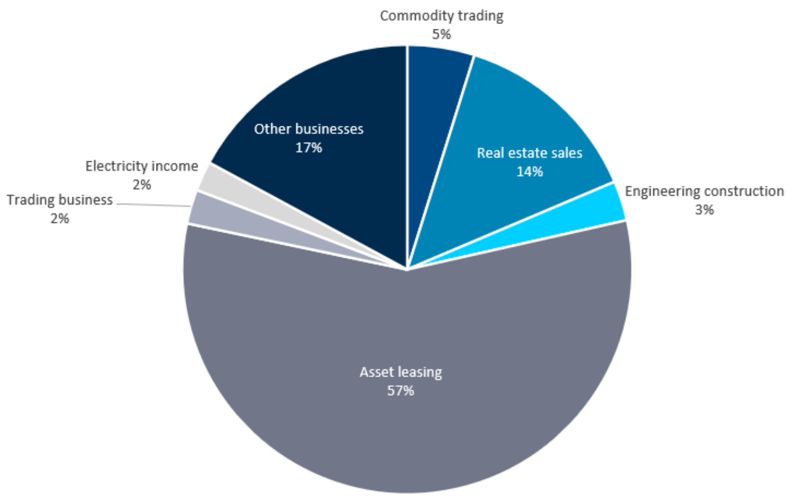
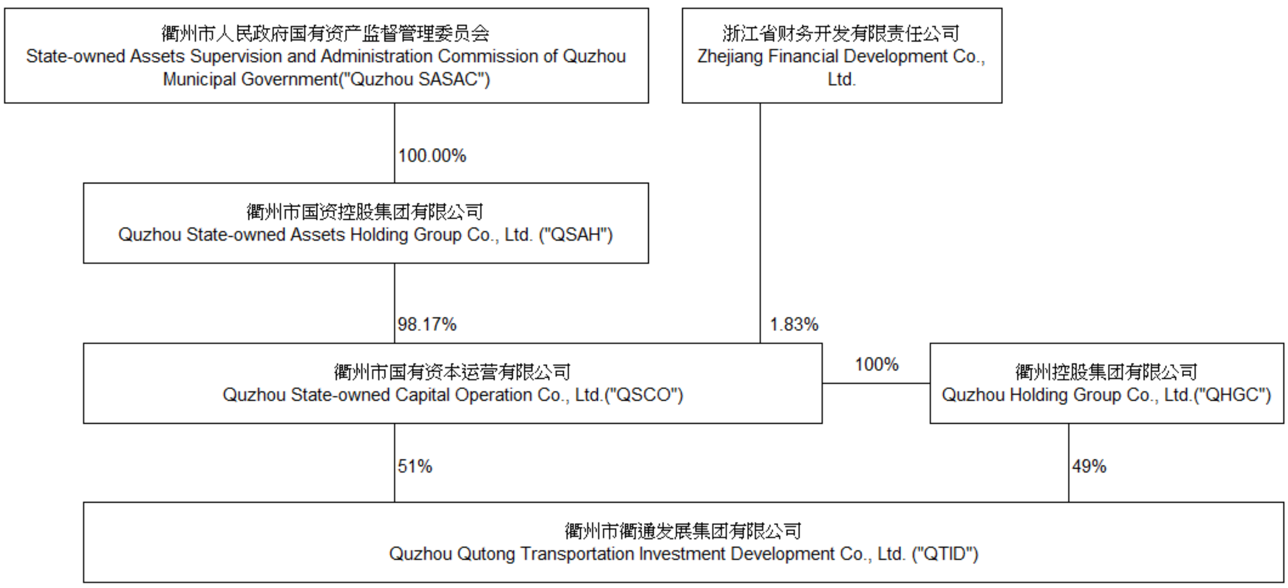


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 December 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Quzhou Municipal Government has a very strong capacity to provide support, given Quzhou City's relatively fast economic growth and good fiscal stability.

Zhejiang Province is one of the most economically developed provinces in China, and its comprehensive economic strength and private economy lead in China. In 2024, the gross regional product ("GRP") of Zhejiang Province was RMB9.0 trillion, ranking 4th among all provinces in China, with a year-on-year ("YoY") increase of 5.5%. In 2024, its general budgetary revenue reached RMB870.6 billion, ranking 3rd among all provinces in China.

Quzhou City is a prefecture-level city in Zhejiang Province with rich mineral resources and is the largest fluorine chemical base in China. The pillar industries in Quzhou City include chemicals, machinery, cement, papermaking, and food processing. In 2024, Quzhou City recorded a GRP of RMB226.3 billion, with a GRP growth rate of 6.4% YoY. The Quzhou Municipal Government's general budgetary revenue amounted to RMB20.9 billion in 2024. It has relatively good fiscal stability, with tax income contributing to 73.2% of the general budgetary revenue in 2024. However, its fiscal balance is weak, with a general budgetary revenue/general budgetary expenditure ratio of 32.5% in 2024, reflecting a high reliance on fiscal support from higher-tier governments and proceeds from land sales to balance its fiscal budget. As of 31 December 2024, the outstanding amount of local government debt grew by 12.5% YoY to RMB115.9 billion, accounting for 51.2% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Quzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	200.3	212.5	226.3
GRP Growth (%)	4.8	6.8	6.4
General Budgetary Revenue (RMB billion)	17.3	20.4	20.9
General Budgetary Expenditure (RMB billion)	56.8	60.6	64.2
Local Government Debt (RMB billion)	86.4	103.1	115.9

Source: Finance Bureau of Quzhou City, CCXAP research

Government's Willingness to Provide Support

Important strategic role as the transportation infrastructure construction entity in Quzhou City

The Company has continued to play an important role in the implementation of infrastructure construction and urban development policies in Quzhou City, and has successfully completed major provincial construction projects. In addition, the Company represents the Quzhou Municipal Government in participating in projects such as municipal highways and shipping hubs, and in high-speed rail projects under the equity participation model. Given its important strategic market position and distinguished role from other state-owned enterprises, we believe that the Company will unlikely be replaced in the foreseeable future.

QTID is the primary transportation infrastructure construction platform in Quzhou City, focusing on investment, financing, construction, and operation of key transportation infrastructure projects, such as highways, comprehensive passenger transport hubs, and water conservancy facilities. These transportation infrastructure projects are strategically aligned with the urban planning and development policies of Quzhou City, and the sources of funding are mainly government fiscal appropriations and self-raised funds. However, the Company's road projects do not generate income and mainly rely on government funds to achieve breakeven. As of September 2024, all major transportation infrastructure construction projects had been completed. The subsequent transportation infrastructure projects will primarily be carried out through equity participation and self-operation models.

In addition, the Company also represents the Quzhou Municipal Government to participate in the construction and operation of railways and provincial highways under the equity participation model, mainly with government funding and self-raised funds. As of 30 September 2024, the Company had 5 major transportation infrastructure construction projects under the equity participation model, with a total investment amount of RMB2.7 billion.

QTID is also engaged in the power generation business, which involves the operation of 4 hydropower stations. The power generated by the 4 operating power stations will be sold to a local power supply company at an agreed price. The power generation business has shown a stable development momentum and brings recurring income to the Company. In 2024, the 4 hydropower stations generated electricity revenue of RMB106.2 million.

Medium exposure to commercial activities

QTID is engaged in commercial activities such as self-operated project construction, engineering construction, commodity trading, building materials sales, and property development businesses. Although the Company's commercial activities account for a relatively high proportion, accounting for about 30% of its total assets as of 30 September 2024, we consider the commercial business risks to be manageable, given that most of the commercial activities have low business risks and the local government has provided financial support to some of the self-operated projects.

At present, QTID focuses on the construction of self-operated projects, including industrial parks, schools, comprehensive transportation hubs, and office buildings. The construction costs of such self-operated projects will be balanced by the operating income generated after the construction is completed. Due to the public welfare nature of these projects, the construction expenditure will be partly supported by government fiscal appropriations. As of 30 September 2024, the Company had 9 major self-operated projects under construction or planning, with a total estimated investment of RMB12.8 billion, and an uninvested amount of RMB5.9 billion.

Furthermore, QTID is also engaged in the engineering construction business, including road maintenance and building engineering construction. It obtains the projects mainly through public bidding. As of 30 September 2024, the Company had a large number of engineering construction projects at hand, with a total contracted amount of RMB2.5 billion, indicating relatively good sustainability of the business.

QTID is engaged in the commodity trading business under a demand-driven business model. The main products of the commodity trading business are steel, cement, coal, and alloys. In 2024, the Company's revenue from this segment was around RMB2.4 billion, accounting for 53.6% of its total revenue. However, this segment faces high concentration risk as of 30 September 2024, as the top 5 suppliers and top 5 customers account for 83.3% and 84.4% of total procurement and sales value, respectively. The Company primarily adopts a prepayment model, typically offering customers a payment term of 1-3 months, which imposes certain pressure from upfront funding. Meanwhile, this business has a low gross profit margin of around 1.3% in 2024.

The Company's building materials sales and property development are managed by subsidiary Zhejiang Baohong Construction Industrial Manufacturing Co., Ltd ("Baohong Construction"). Baohong Construction is engaged in the production and sales of building materials, including commercial concrete, building industrialized components, and prefabricated concrete parts. However, the concentration of suppliers and customers is relatively high. As of 30 September 2024, the top 5 suppliers and top 5 customers accounted for 70.8% and 71.7% of total procurement and total sales, respectively. In addition, this segment is susceptible to fluctuations in the building materials industry.

The Company has also participated in the property development business. In 2024, the Company recorded RMB463.6 million in revenue from commercial housing sales, accounting for 10.4% of its total revenue. As of 30 September 2024, the Company completed 2 major property development projects, with a total investment amount of RMB3.5 billion, and the payment collection has been basically completed. As of 30 September 2024, the Company had 2 major property projects under construction or planning, with a total investment amount of RMB3.7 billion, imposing certain capital expenditure pressure on the Company.

Moderate debt management and moderate asset liquidity

QTID has moderate debt management, as reflected by its rapid debt growth and modest debt structure. Its total debt increased from RMB18.6 billion at end-2023 to RMB22.6 billion at end-2024, and its total capitalization ratio slightly increased from 48.9% to 53.3% over the same period. Moreover, the Company's debt maturity profile needs to be improved. As of 31 December 2024, its short-term debt amounted to RMB9.1 billion, accounting for 40.4% of its total debt, and its cash-to-short-term-debt ratio was around 0.3x, indicating high short-term debt servicing pressure. We expect the Company's debt leverage to remain high in the next 12 to 18 months, given its large number of construction projects in the pipeline.

Furthermore, the Company's asset liquidity is moderate as its total assets mainly consist of assets with low liquidity. These include costs from construction projects (recorded as inventories, construction in progress, and other non-current assets), investment properties, and lands (recorded as intangible assets), which accounted for 66.2% of total assets as of 31 December 2024. It is noteworthy that low asset liquidity may undermine the Company's financing flexibility. In addition, as of 31 December 2024, the amount of restricted assets was RMB4.8 billion, which were mainly used as collateral and accounted for 11.1% of total assets.

Good access to funding

We consider QTID's access to funding to be good, given its strong banking relationships and access to the bond market. As of 31 December 2024, the Company had obtained sufficient credit facilities from major domestic policy banks or commercial banks, with total credit facilities of around RMB21.5 billion and available credit facilities of RMB10.0 billion. The Company is also an active issuer in the public bond market. From January 2024 to March 2025, it had issued multiple types of onshore bonds such as SCPs and MTNs, with a total issuance amount of RMB3.2 billion, as well as offshore bonds of USD200 million. As of 31 December 2024, bank loans and bonds accounted for 40.7% and 25.7% of the Company's total debt, respectively. In addition, the Company has relatively low reliance on non-standard financing, with non-standard financing accounting for 7.9% of the total debt.

Good track record of receiving government payments

QTID has received continuous support from the local government, including capital injections, asset transfers, project grants, and financial subsidies. From 2023 to 2024, the Company received a total capital injection of RMB709.5 million, mainly including cash and library assets. In addition, the Company received equity interests in the local state-owned enterprises, mainly energy companies, of RMB108.4 million. The Company also received total government subsidies of RMB346.1 million and government special funds of RMB705.2 million over the same period. The continuous support from the local government has significantly enhanced its capital strength and broadened its business mix. Overall, given the Company's important position and its contribution to regional economic development, we believe QTID will continue to receive support from the government.

ESG Considerations

QTID assumes environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

As a public services provider in Quzhou City, the Company also faces social risks. Demographic changes, public awareness, and social priorities shape the government's target for QTID, which may affect the government's propensity to support the Company.

QTID’s governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public policy role and status as a government-owned entity.

Structural Considerations

QTID’s senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in the transportation infrastructure construction in Quzhou City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address:	Suites 1904-1909, 19/F, Jardine House,
	1 Connaught Place, Central, Hong Kong
Website:	www.ccxap.com
Email:	info@ccxap.com
Tel:	+852-2860 7111
Fax:	+852-2868 0656