

Credit Opinion

4 December 2025

Zigong Construction & Engineering Co., Ltd.

Surveillance credit rating report

Ratings

Senior Unsecured

Debt Rating Ag+
(guaranteed)

Long-Term Credit
Rating BBB_g-

Outlook Stable

Category Corporate

Domicile China

Rating Type Solicited Rating

CCXAP affirms Zigong Construction & Engineering Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Zigong Construction & Engineering Co., Ltd. ("ZCEC" or the "Company") reflects Zigong Municipal Government's (1) strong capacity to provide support, and (2) very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Zigong Municipal Government's capacity to provide support reflects its status as a national demonstration zone for industrial transformation and upgrading of old industrial cities, which has relatively good economic fundamentals.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) high sustainability for public projects; and (2) good predictability of government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) weak asset liquidity; and (3) rapid debt growth.

The stable outlook on ZCEC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in public policy projects in Zigong City for the next 12 to 18 months.

Analyst Contacts

Peter Chong +852-2860 7124
Associate Director of Credit Ratings
peter_chong@ccxap.com

Jonathan Kwong +852-2860 7133
Senior Credit Analyst
jonathan_kwong@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

- One of the major infrastructure construction entities in Zigong City
- High sustainability for public policy projects
- Good predictability of government support
- Rapid debt growth
- Medium exposure to commercial activities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in company characteristics decrease the local government's willingness to support, such as reduced sustainability for public policy projects.

Key Indicators

	2022FY	2023FY	2024FY	2025H1
Total Asset (RMB billion)	11.4	13.1	16.3	19.6
Total Equity (RMB billion)	8.7	8.8	8.9	8.9
Total Revenue (RMB billion)	0.8	0.7	0.7	0.2
Total Debt/Total Capital (%)	21.8	29.5	41.7	51.3

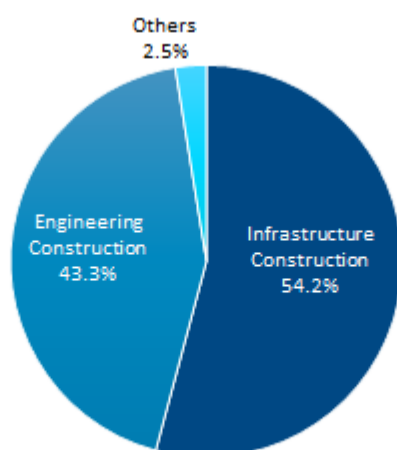
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

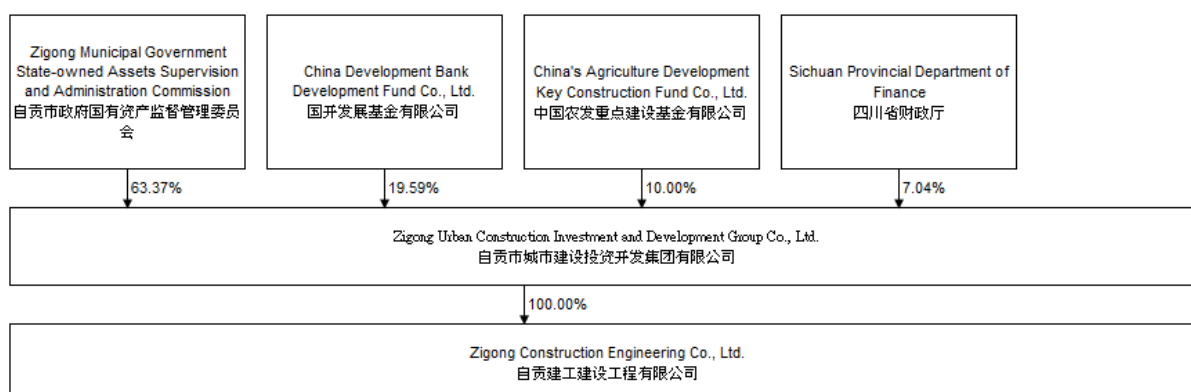
Formerly known as Sichuan Shenhai Construction Engineering Co., Ltd., ZCEC was acquired by Zigong Urban Construction Investment and Development Group Co., Ltd. ("ZUCI") in 2014. ZCEC is primarily engaged in infrastructure construction projects in Zigong City. It also undertakes commercial activities such as engineering construction, and operation of local tourism spots. As of 30 June 2025, the Company was wholly owned by ZUCI and ultimately controlled by the Zigong Municipal Government State-owned Assets Supervision and Administration Commission ("Zigong SASAC").

Exhibit 1. Revenue structure in 2024



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 30 June 2025



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Zigong Municipal Government has a strong capacity to provide support for the Company given its status as a national demonstration zone for industrial transformation and upgrading of old industrial cities, which has relatively good economic fundamentals.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2024, Sichuan recorded a gross regional product ("GRP") of RMB6.5 trillion, with a GRP growth rate of 5.7% year-on-year ("YoY"). Its general budgetary revenue increased to RMB563.5 billion, up by 1.9% YoY. In the first nine months of 2025, Sichuan achieved a GRP of RMB4.9 trillion, a YoY increase of 5.5%.

Located in the southern part of the Sichuan Province, Zigong City is a central city in the southern part of the Chengdu-Chongqing Economic Circle with rich tourism resources. Zigong's traditional industries are heavy industries, such as salt and halogen chemical industry. As the only national industrial transformation and upgrading demonstration zone for conversational industrial cities in Sichuan Province, Zigong City has actively promoted industrial transformation to develop electronic information, equipment manufacturing, food and

beverage, advanced materials, energy and chemical industries. Zigong City's GRP increased from RMB175.0 billion in 2023 to RMB187.6 billion in 2024, ranking 12th among 21 cities in Sichuan Province. Its GRP growth rate was 7.1% in 2024. In the first nine months of 2025, Zigong's GRP recorded a YoY increase of 6.6% to RMB146.2 billion. The Zigong Municipal Government's general budgetary revenue increased from RMB8.1 billion in 2023 to RMB8.5 billion in 2024, of which tax revenue only accounted for 40.4%. Zigong City has a relatively weak fiscal self-sufficiency, given its fiscal balance ratio was lower than 30% over the past three years. At end-2024, Zigong City's outstanding government debt was RMB87.5 billion, accounting for 46.7% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Zigong City

	2022FY	2023FY	2024FY
GRP (RMB billion)	163.8	175.0	187.6
GRP Growth (%)	0.5	6.2	7.1
General Budgetary Revenue (RMB billion)	6.3	8.1	8.5
General Budgetary Expenditure (RMB billion)	25.7	29.8	30.4
Local Government Debt (RMB billion)	61.9	73.8	87.5

Source: Statistic Bureau of Zigong City, CCXAP research

Government's Willingness to Provide Support

Major infrastructure construction entity in Zigong City with high sustainability for public projects

Positioned as the major infrastructure construction entity in Zigong City, ZUCI is mainly responsible for the shantytown renovation, resettlement housing and infrastructure construction. The Company is one of the subsidiaries of ZUCI. In December 2022, ZUCI injected a large amount of infrastructure projects with a total book value of RMB2.7 billion to the Company. Since then, the Company has become one of the major infrastructure construction entities in Zigong City. As one of the major infrastructure construction entities in Zigong City, we believe the Company will maintain its important position in local public projects in Zigong City.

Entrusted by the government, the Company conducts infrastructure projects by signing agency construction agreements with the local government and relevant departments or authorities, which would pay the construction management fee to the Company. As of 31 December 2024, the Company had 19 infrastructure construction projects under construction, with a total investment amount of RMB25.1 billion and an outstanding amount of RMB22.4 billion. Given the sufficient amount of infrastructure projects in the pipeline, we expect the infrastructure construction business has good sustainability but exerts relatively large capital expenditure pressure at the same time.

Good predictability of government support

ZCEC has received strong support from the Zigong Municipal Government and ZUCI, including asset injections, cash injections, and financial subsidies. In 2024, the Company received government subsidies of RMB50.0 million. Meanwhile, the Company also received cash injection of RMB0.8 million. The Company also regularly received project payments for its completed infrastructure projects. Given the strategic role of ZCEC in Zigong City, we expect the Company will continue to receive support from the Zigong Municipal Government in the future.

Medium exposure to commercial activities

In addition to public activities, ZCEC is also involved in other commercial activities such as self-operating project, engineering construction, and operation of local tourism spots. We estimate that the Company has medium

commercial exposure as the proportion of commercial business assets accounts for around 30% of its total assets.

Engineering construction is the Company's major source of income, which accounted for around 43.3% of the total revenue in 2024. The Company undertakes engineering construction projects through public bidding with self-raised funds. Most of the engineering construction projects are government-related projects, such as talent apartments, roads, and parking lots. As of 31 December 2024, the Company had various engineering construction projects under construction, with a total investment of RMB3.4 billion and an outstanding amount of RMB2.0 billion. The gross margin of engineering construction business dropped to around 4.6% in 2024, mainly due to the disposal of some projects at cost price, resulting in a zero gross profit margin for the projects.

The Company also engages in the construction of self-operated projects. As of end-2024, the Company has 1 self-operated project under construction, with a total investment of RMB435.0 million and uninvested amount of RMB166.0 million. The project is an affordable housing project, with targeted sales as a source of future operating income. The capital balance will also be largely affected by the subsequent operations of these projects. In addition, the Company also operates a local tourism spot, with construction area of 32,400 square meters. The main source of income from local tourism spot is ticket revenue. In 2024, the revenue from local tourism spot was around RMB0.7 million.

Rapid debt growth

ZCEC's total debt had increased significantly from RMB3.7 billion at the end of 2023 to RMB9.4 billion as of 30 June 2025. Its capitalization ratio increased from 29.5% to 51.3% over the same period. The rapid debt growth was mainly due to the large capital demands for the construction projects, and project financing for state-owned companies at the county/district level in Zigong City. In addition, the Company faces certain short-term repayment pressure, its short-term debt accounting for about 41.6% of its total debt and its cash to short-term debt ratio was 0.5x, as of 30 June 2025. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-18 months.

The Company bears manageable risks arising from external guarantees. As of end-2024, the Company had outstanding external guarantees of RMB1.2 billion, representing 13.0% of its net assets. All of external guarantees were provided to local state-owned enterprises, with manageable default risks, as they can receive government support to withstand unfavorable market conditions.

Weak asset liquidity

The Company's weak asset liquidity may undermine its financing flexibility. As of 30 June 2025, the Company's total asset mainly consisted of inventories and receivables, accounting for 86.9% of its total asset. Inventories are construction cost, and receivables are mainly unreceived payments from local state-owned companies, all of which are considered low liquidity. At the end of 2024, the restricted asset was RMB246.0 million, accounting for 1.5% of the total asset, which was mainly pledged for borrowing.

Fair access to funding

ZCEC's large investment needs could be partially supported by its good relationship with large domestic banks, such as Agricultural Development Bank of China and Bank of China. As of end-2024, it held a total bank credit facility of RMB7.9 billion, with available credit facility of RMB3.0 billion. The Company also expanded its financing channel to offshore debt capital market. In December 2024, the Company issued an offshore bond with a total issuance amount of USD79.0 million, with coupon rate of 7.0%. In addition, the Company has

lowered its exposure to non-standard financing, such as financial leasing, which accounted for around 12.0% of its total debt at end-2024.

ESG Considerations

ZCEC assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction. ZCEC's key operations are in material compliance with currently applicable national and local environmental, health and safety laws and regulations.

ZCEC is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Zigong City. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

ZCEC's governance considerations are also important as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Credit Enhancement

The rating of ZCEC's guaranteed bonds (ISIN: XS2957377430) is based on our assessment on the credit quality of Tianfu Bond Insurance Co., Ltd. ("TFBI"). The bonds will be unconditionally and irrevocably guaranteed by TFBI. The obligations of TFBI for the bonds shall at all times at least rank pari passu with all other present and future unsecured and unsubordinated obligations of TFBI. Any change to the credit quality of TFBI could lead to a corresponding change in the rating of the bonds.

Rating Methodology

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

Copyright © 2025 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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