

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd., with stable outlook**

Hong Kong, 21 April 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>- long-term credit rating to Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd. (“ZGSAO” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of ZGSAO is underpinned by the Company’s (1) position as the key operator in infrastructure construction in Gaoyao District; and (2) good supplemental income from state-owned assets operation. However, the rating is constrained by the Company’s (1) weak operating profitability; (2) large capital expenditure pressure; and (3) weak asset liquidity and modest liquidity position.

The rating also incorporates our expectation that ZGSAO is likely to receive support from the Gaoyao District Government when needed, given the Company’s (1) important position in regional infrastructure construction in Gaoyao District; (2) ultimate control by the local government; and (3) good track record of receiving government support.

### **Corporate Profile**

Founded in 1994, ZGSAO is a key state-owned enterprise in Gaoyao District of Zhaoqing City. The Company is mainly engaged in infrastructure construction, water supply, grain sales, and other businesses such as civil explosive sales, provision of security services, meat processing, and driving training. As of 30 June 2021, as the ultimate controlling shareholder of the Company, State-owned Assets Supervision and Administration Bureau of Gaoyao District of Zhaoqing City (“Gaoyao SASAB”) held 90% of the Company’s equity interests, while the Department of Finance of Guangdong Province held the remaining 10%.

### **Rating Rationale**

#### **Credit Strengths**

**High likelihood of receiving support from the local government when needed.** ZGSAO plays an important strategic role in supporting and promoting the urbanization and industrialization of Gaoyao District. Since its establishment, the Company has undertaken numerous key municipal infrastructure projects in Gaoyao District, including municipal roads, urbanization construction upgrades, and sewage treatment plants. ZGSAO is directly supervised by Gaoyao SASAB and has received ongoing support from the Gaoyao District Government in the form of operating subsidies, capital injections, and high-quality asset transfers.

**Key operator in infrastructure construction in Gaoyao District.** As the important infrastructure construction entity in Gaoyao District, ZGSAO has undertaken a number of infrastructure projects, such as urban developments and municipal roads, as well as projects in relation to water supply and sewage treatment.

**Supplemental income from state-owned assets operation.** As the primary state-owned assets operation entity in Gaoyao District, ZGSAO is responsible for maintaining and enhancing the value of state-owned assets through the operation of public service businesses, such as grain sales and water supply. In addition, the Company will also engage in mining, parking lot and gas station operations, and solar power generation businesses.

### **Credit Challenges**

**Weak operating profitability.** Owing to the fluctuations in infrastructure construction revenue, ZGSAO's total revenue fluctuated in the past years. Furthermore, the Company's operating profitability is weak and volatile due to increasing expenditures and decreasing gross profit margin of its infrastructure construction business.

**Large capital expenditure pressure.** As a major investment and financing entity in Gaoyao District, the Company has many projects in the pipeline, resulting in large capital expenditure pressure. As of 30 June 2021, the Company had 11 projects under construction or planning, with a cumulative investment of RMB5.6 billion. The Company had funded these projects primarily through external financing over the past years, resulting in its high debt leverage.

**Relatively weak asset liquidity and modest liquidity position.** ZGSAO's asset liquidity is relatively weak. As of 30 June 2021, the Company's total assets mainly consisted of total receivables and inventories with low liquidity, accounting for 73.8% of total assets. In addition, the Company has a modest standalone liquidity position. As of 30 June 2021, the Company held cash and cash equivalents of RMB296.8 million, while its short-term debt was RMB344.4 million.

### **Rating Outlook**

The stable outlook on ZGSAO's rating reflects our expectation that the Company will maintain its important position in Gaoyao District of Zhaoqing City and will continue to receive government support.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the economic and fiscal conditions of Zhaoqing City and Gaoyao District materially improves; (2) ZGSAO takes on a stronger role in Zhaoqing City, with increased likelihood of government support; and (3) the Company's stand-alone credit profile improves significantly, such as improvement in business sustainability and operating profitability.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the economic and fiscal performance of Zhaoqing City and Gaoyao District deteriorates; (2) ZGSAO shows a weaker business sustainability in Gaoyao District, with decreased likelihood of government support; or (3) the Company's stand-alone credit profile weakens significantly, such as deterioration in its financing ability and liquidity position.



## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

## Regulatory Disclosures

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