CCXAP affirms Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd. ("GJID" or the "Company") reflects Gaoyao District Government's relatively strong capacity to provide support, and extremely high willingness to provide support to the Company based on our assessment of the Company's characteristics. Our assessment of Gaoyao District Government's capacity to provide support reflects its important economic status in Zhaoqing City, relatively good investment potential, and ongoing economic growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important strategic position in Gaoyao District and Jinli High-tech Zone, with high sustainability of infrastructure construction business; and (2) good track record of receiving governmental support. However, the Company's rating is constrained by the Company's (1) increasing debt burden and moderate asset liquidity; (2) medium contingent liability risk from external debt guarantees and (3) high reliance on non-standard financing.

Corporate Profile

Founded in 2017, GJID is an important local infrastructure investment and financing company ("LIIFC") in Gaoyao District of Zhaoqing City. The Company primarily engages in infrastructure construction business. It is also engaged in some commercial businesses, such as trading, property leasing, and catering. In December 2022, the 100% equity interests of GJID were transferred to Zhaoqing Gaosheng City Investment Development Co., Ltd, which has become the sole controlling shareholder of the Company. As of 31 December 2022, GJID was ultimately controlled by the State-owned Assets Supervision and Administration Bureau of Gaoyao District of Zhaoqing City ("Gaoyao SASAB"). As of the same date, the registered capital of the Company was RMB276 million.

Rating Rationale

Credit Strengths

Important strategic position in Gaoyao District and Jinli High-tech Zone, with high sustainability of infrastructure construction business. GJID is primarily responsible for the infrastructure construction in the new urban area of Gaoyao District and Jinli High-tech Zone, while GSAO is mainly responsible for the operation of state-owned assets as well as the infrastructure construction in the old urban area of Gaoyao District. As an important infrastructure construction entity in Gaoyao District and the sole infrastructure construction entity in Jinli High-tech Zone, the Company actively participates in various infrastructure projects, effectively facilitating the urbanization and regional economic development of Gaoyao

District. We believe that GJID's important role in the economic development of Gaoyao District and its public welfare function are unlikely to be replaced in the short-to-medium term.

Good track record of receiving governmental support. Since its establishment, GJID has received ongoing support from the local government in the form of capital injection, asset transfer, and government subsidies. From 2020 to 2022, the Company has received asset transfer from Gaoyao SASAB, increasing its capital reserve by RMB5.5 billion. In December 2020, under the guidance of Gaoyao District Government, 100% equity interests of Zhaoqing Gaoyao Gaoyu Property Management Co., Ltd. ("Gaoyu Property") was transferred to the Company, strengthening its property leasing business. In 2021, Gaoyao SASAB injected forest rights of RMB1.3 billion and equity rights of several state-owned enterprises into the Company in order to replace some of its receivables. Moreover, the Company continued to receive financial subsidies from the local government. From 2020 to 2022, the Company received total government subsidies of about RMB720 million.

Credit Challenges

Increasing debt burden and moderate asset liquidity. GJID has increased the external financing for the construction projects in the pipeline, causing a rapid growth in its debt burden. The Company's total debt increased from RMB4.8 billion at end-2021 to RMB8.0 billion at end-2022, with a high capitalization ratio of 53.7%. The Company's asset liquidity is also moderate, which may undermine its financing flexibility. At end-2022, its assets mainly consist of inventories and receivables, accounting for 81.4% of the total assets. The inventories are comprised of land use rights and development costs for the construction projects, while receivables are mainly payments owed by entrusting parties of the construction projects, both of which have low liquidity.

High reliance on non-standard financing. GJID has a high reliance on non-standard financing, including borrowing from other state-owned enterprises as well as finance leasing, which carries higher costs and refinancing risk. As of 31 December 2022, its non-standard financing accounted for more than 30% of total debt. The Company will rely more on bank loans and plans to issue offshore bonds, diversifying its financing channel and reducing the proportion of non-standard debts.

Medium contingent liability risk from external debt guarantees. GJID has medium contingent liability risk, which may increase its repayment obligations given its large number of external guarantees. As of 31 December 2022, the Company had outstanding external guarantees of RMB4.6 billion, accounting for 66.3% of its net assets. Although the counterparties of external guarantees are all local state-owned enterprises with relatively low default risks, the external guarantees amount is substantial, which is credit negative to GJID's rating.

Rating Outlook

The stable outlook on GJID's rating reflects our expectation that the Company will maintain its important position in Gaoyao District. We also expect that the Company will continue to receive ongoing government support.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improvement in debt management and material reduction in external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decrease the local government's willingness to provide support, such as decrease in its strategic significance or increase in commercial exposure.

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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