

CCXAP affirms Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd.'s long-term credit rating of BBB_g-, with stable outlook.

Hong Kong, 21 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd. (“GSAO” or the “Company”) at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of GSAO reflects the 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 the 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 position in infrastructure construction and water supply of Gaoyao District; and (2) good track record of receiving governmental payments. However, the Company’s rating is constrained by the Company’s (1) moderate asset quality; and (2) high reliance on non-standard fundings.

Corporate Profile

Founded in 1994, GSAO is a key state-owned enterprise in Gaoyao District of Zhaoqing City. The Company is mainly engaged in public policy businesses such as infrastructure construction and water supply, and commercial businesses such as civil explosive sales, provision of security services, meat processing, and driving training. As of 31 March 2023, 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%. Gaoyao SASAB has decided to transfer its 90% equity interests of GSAO to Zhaoqing Gaosheng City Investment Development Co., Ltd, which has become the largest shareholder of the Company; however, the registration of shareholder changes has not been completed.

Rating Rationale

Credit Strengths

Important position in infrastructure construction and water supply of Gaoyao District. GSAO 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, and urbanization construction. We believe that GSAO’s important role in the development of Gaoyao District and its public welfare functions are unlikely to be replaced in the short-to-medium term.

Good track record of receiving government payments. GSAO has a good track record of receiving ongoing government payments, in the form of operating subsidies, capital injections,

project payments, and high-quality asset transfers. After years of capital injections by the Gaoyao District Government, the Company's registered capital had increased from the original RMB10.0 million to RMB178.0 million. The local government also transfers high-quality assets to the Company to enhance its asset strength and revenue. In 2022, the Gaoyao District Government transferred rental properties of RMB2.0 billion to the Company, which can generate stable rental income. From 2020 to 2022, the Company received RMB787.9 million in government subsidies to support its operation and project construction. The Company also regularly receives agency project payments from the local government, totaling RMB594.3 million over the past three years. Given its important strategic position in Gaoyao District, we expect the local government will provide ongoing and stable support to the Company.

Credit Challenges

Moderate asset quality. GSAO's asset liquidity is moderate as its assets mainly consist of total receivables and inventories, both with low liquidity. As of 31 December 2022, the Company's total receivables and inventories accounted for 65.8% of total assets. The moderate asset liquidity may undermine the Company's financing flexibility.

High reliance on non-standard fundings, alleviated by sufficient standby liquidity and access to debt capital market. GSAO is highly reliant on non-standard fundings, such as financial leases and trusts, which may increase its refinancing risk. As of 31 December 2022, the Company's non-standard debts accounted for about 45% of its total debt, resulting in relatively high comprehensive financing cost of about 7%. We believe the Company's refinancing risk can be partially alleviated by its sufficient standby liquidity and access to debt capital market.

Rating Outlook

The stable outlook on GSAO's rating reflects our expectation that the local government's capacity to provide support will remain stable, and that the Company will maintain its important position in Gaoyao District and 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 access to funding and asset quality.

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 reduced regional significance or increase in exposure to commercial activities.



Rating Methodology

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

Regulatory Disclosures

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