

CCXAP assigns first-time long-term credit rating of BBB_g- to Gaoyou Water Industry Investment Group Co., Ltd., with stable outlook.

Hong Kong, 3 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Gaoyou Water Industry Investment Group Co., Ltd. (“GWIG” or the “Company”) with stable outlook.

The BBB_g- long-term credit rating of GWIG reflects Gaoyou City 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 Gaoyou City Government’s capacity to provide support reflects Gaoyou City’s important status in Yangzhou City, ongoing 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) strong market position in water conservancy infrastructure construction and water utilities services of Gaoyou City; (2) good track record of receiving government support; and (3) access to funding from banks and domestic bond market. However, the Company’s rating is constrained by the Company’s (1) moderate debt management; (2) relatively low asset liquidity; and (3) high exposure to external guarantees.

Corporate Profile

Established in 2013, GWIG is an important water conservancy infrastructure construction entity in Gaoyou City, with strong market position. The Company is mainly engaged in water conservancy infrastructure construction, water supply, and sewage treatment in Gaoyou City. It has also participated in commercial activities, such as engineering construction and agricultural trading. As of 31 March 2023, the Company was wholly owned by Gaoyou Construction Investment Development Group Co., Ltd. (“GCID”) and ultimately controlled by Gaoyou State-owned Assets Administration Center.

Rating Rationale

Credit Strengths

Strong market position in water conservancy infrastructure construction and water utilities services of Gaoyou City. As an important subsidiary of GCID and a sole water conservancy infrastructure construction entity in Gaoyou City, GWIG has strong regional advantage in undertaking water conservancy infrastructure construction projects in the region, such as river regulation work and water quality improvement projects. It is also an important utilities services provider, responsible for water supply in town area and sewage treatment in urban area of Gaoyou City. Given the Company’s important role to local economic and social development, we believe it will remain its important business position in water related segments.

Low exposure to commercial activities. In addition to public activities, GWIG is also engaged in commercial businesses such as engineering construction and agricultural trading businesses. We consider the Company’s exposure to commercial businesses to be relatively small,



accounting for less than 10% of its total assets. The Company's engineering construction business is operated by its subsidiaries through bidding in a market-oriented manner, which mainly covers in Gaoyou City as well as other areas in Jiangsu Province. Although the business has exerted certain capital expenditure pressure, it is the largest source of income of the Company. Given its sufficient contracts at hand, we believe the business can continue to provide supplemental income to the Company.

Good track record of receiving government support. GWIG has regularly received support from Gaoyou City Government in the form of operating subsidies, project payments, capital injection, and asset transfers. The Company has received ongoing capital injection, significantly enhance its capital strength. The asset transfers not only enhance the Company's capital strength, but also support its business development. From 2020 to 2022, the Company totally received government subsidies of RMB300 million. Furthermore, the Company also regularly receives project payments from the local government, totaling RMB300 million during the same period. Given its strong market position in undertaking water conservancy infrastructure projects in Gaoyou City, we believe that the local government will continue to provide support to the Company.

Access to funding from banks and domestic bond market. GWIG has access to funding from banks and domestic bond market. The Company has an approved line of credit from diversified commercial and policy banks, such as Industrial and Commercial Bank of China and Agricultural Development Bank. As of 31 March 2023, it had obtained total credit facilities of RMB5.7 billion, with available credit facilities of RMB1.2 billion. The Company also has access to domestic bond market. From 2020 to mid-2023, it had issued 7 tranches of bond products, such as PPNs and private corporate bonds, raising about RMB4.3 billion.

Credit Challenges

Moderate debt management with relatively fast debt growth. GWIG's debt management is moderate as reflected by its relatively fast debt growth over the past three years. The Company's total debt had increased from RMB6.0 billion at end-2020 to RMB7.5 billion at end-2023Q1, with total capitalization ratio of 50.1%. The increase in debt is mainly attributable to the ongoing financing for the water conservancy infrastructure projects. In addition, the Company's short-term debt accounts for about 30% of total debt, indicating moderate debt maturity structure and relatively high short-term debt servicing pressure. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

Relatively low asset liquidity. GWIG has relatively low asset liquidity, which may undermine its financing flexibility. As of 31 March 2023, the Company's inventories accounted for 65.4% of its total asset. Inventories are mainly land and investment costs for infrastructure construction projects, of which are considered low liquidity. Furthermore, as of 31 March 2023, the Company had pledged assets of RMB1.8 billion for loans, accounting for 11.1% of total assets.

High exposure to external guarantees, with manageable contingent liabilities risk. GWIG has a large number of external guarantees, which has constrained its credit rating. As of 31

March 2023, the Company had outstanding external guarantees of RMB6.7 billion, accounting for 89.6% of its net assets, all of which were provided to local state-owned enterprises with low credit risks. Although we believe the Company's overall contingent liabilities risk is manageable, it is noteworthy that the external guarantee amount is large, which may increase its repayment obligations should a credit event occurs.

Rating Outlook

The stable outlook on GWIG'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 the water conservancy infrastructure construction and utilities services of Gaoyou City.

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 strengthened regional significance or a reduction in the exposure to external guarantees.

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 decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

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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