

Credit Opinion

3 August 2023

Ratings

Senior Unsecured Debt Rating	BBB _g -
Long-Term Credit Rating	BBB _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

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

Karissa Du +852-2860 7126
Credit Analyst
karissa_du@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

Gaoyou Water Industry Investment Group Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g- long-term credit rating of Gaoyou Water Industry Investment Group Co., Ltd. (“GWIG” or the “Company”) 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 utility 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.

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 utility services of Gaoyou City.

Rating Drivers

- Strong market position in water conservancy infrastructure construction and water utility services of Gaoyou City
- Low exposure to commercial activities
- Good track record of receiving government support
- Moderate debt management with relatively fast debt growth
- Relatively low asset liquidity
- Access to funding from banks and domestic bond market
- High exposure to external guarantees, with manageable contingent liabilities risk

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	13.2	14.0	15.6	16.1
Total Equity (RMB billion)	6.3	6.8	7.5	7.5
Total Revenue (RMB billion)	0.8	1.1	1.2	0.4
Total Debt/Total Capital (%)	48.4	47.9	48.0	50.1

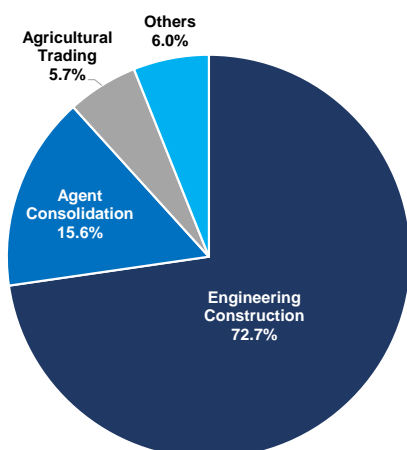
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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.

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding and organization chart as of 31 March 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Gaoyou City Government has a strong capacity to provide support, given its important status in Yangzhou City, ongoing economic growth and good fiscal stability.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional products ("GRP"), after Guangdong Province. In 2022, the GRP of Jiangsu Province was RMB12.3 trillion, and its GRP growth rate was 2.8%. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB925.9 billion in 2022 from RMB1 trillion in 2021, with tax revenue accounting for 73.5% of its general public budget revenue. With the relief of pandemic measures and recovery of economic development, we expect that Jiangsu's economy will recover steadily as supported by its strong integrated strength.

Yangzhou City is a prefecture-level city administrated under Jiangsu Province. Yangzhou City is in the middle of Jiangsu Province. As the hub city of the Yangtze River and the Beijing-Hangzhou Grand Canal, Yangzhou City has a significant location advantage. It was an important salt and grain distribution center in history, and is now the water source of the South-to-North Water Diversion Project. The location advantage of Yangzhou

City helps support its rapid economic growth. In recent years, Yangzhou has developed manufacturing and modern service industries, optimized the agricultural structure, promoted the transformation and upgrading of the manufacturing industry, and expanded strategic emerging industries, such as new light sources, new energy, high-end manufacturing, biotechnology and new medicine, and new generation information technology. Benefiting from its good location advantages and optimized industrial structure, Yangzhou's GRP reached over RMB710.5 billion in 2022, ranking medium level in Jiangsu Province. Despite the impact of the COVID-19 pandemic, Yangzhou was still able to maintain a good economic growth rate of 4.3% in 2022. In 2022, Yangzhou reported a general budgetary revenue of RMB32.5 billion. Tax income accounted for 73.2% of its fiscal revenue, representing a relatively good fiscal stability. However, recent fluctuations in the real estate market may affect its fiscal stability as government funds accounted for around 60% of its fiscal revenue, which mainly came from land sales. The high correlation between its fiscal revenue and the property market would be a credit negative because this may increase the government's fiscal pressure when the property market underperforms. At the end of 2022, Yangzhou's local government debt balance was RMB110.5 billion, accounting for 15.7% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Yangzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	604.8	669.6	710.5
GRP Growth (%)	3.5	7.4	4.3
General Budgetary Revenue (RMB billion)	33.7	34.4	32.5
General Budgetary Expenditure (RMB billion)	66.8	68.5	69.9
Local Government Debt (RMB billion)	90.6	97.8	110.5

Source: Statistics Bureau of Yangzhou City, CCXAP research

Located in the north of Yangzhou City, Gaoyou City is a county-level city under the administration of Yangzhou City, with a total area of 1,963 square kilometers. It has developed three traditional industries including machinery and equipment manufacturing, wire and cable, and textile and clothing, as well as three leading industries including optical storage and charging, smart lighting, and electronic information. Gaoyou City has demonstrated ongoing economic growth over the years. Its GRP increased from RMB83.8 billion in 2020 to RMB101.5 billion in 2022, ranking third among the districts/counties in Yangzhou City. Its general budgetary revenue increased from RMB3.8 billion in 2020 to RMB4.0 billion in 2022. It has good fiscal stability, with tax revenue accounting for 80.2% of its general public budget revenue on average over the past three years. In addition, the Gaoyou City Government has outstanding government debt of RMB10.4 billion at end-2022, accounting for 10.2% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Gaoyou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	83.8	92.9	101.5
GRP Growth (%)	3.4	7.8	4.8
General Budgetary Revenue (RMB billion)	3.8	3.9	4.0
General Budgetary Expenditure (RMB billion)	8.3	8.8	9.5
Local Government Debt (RMB billion)	9.4	9.5	10.4

Source: Statistics Bureau of Gaoyou City, CCXAP research

Government's Willingness to Provide Support

Strong market position in water conservancy infrastructure construction and water utility services of Gaoyou City

Gaoyou State-owned Assets Investment Management Holdings (Group) Co., Ltd. is the largest Local Infrastructure Investment and Finance Company ("LIIFC") in Gaoyou City, directly holding the equity interests of other three main LIIFCs, GCID, Gaoyou Transportation Industry Investment Group Co., Ltd., and Jiangsu Xinyou Investment Group Co., Ltd., each with clear positioning in the development of the region. 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 utility 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.

GWIG conducts water conservancy infrastructure construction projects by self-owned funds or through external financing. Entrusted by the local government or local state-owned enterprises, the Company undertakes construction projects under agency construction model. Upon completion of construction, the entrusting parties will settle with the Company based on the project investment amount plus 10%-20% markup as a management fee. As of 31 March 2023, the Company's major infrastructure construction projects under construction or planning required a total estimated investment of RMB5.0 billion, with uninvested amount of around RMB2.0 billion. These projects mainly include environmental improvement, sewage pipe network, and water quality improvement. Overall, given the considerable construction projects in the pipeline, the infrastructure construction business is sustainable, but exerting high capital expenditure pressure.

GWIG is responsible for water supply service in seven towns of Gaoyou City, covering an area of 850 square kilometers. The Company provides water to more than 332,000 residents via one water supply plant with a daily water supply capacity of 60,000 tons and water pipe network of 2,030 kilometers. It has strong regional position in the water supply of Gaoyou City. GWIG is also responsible for the construction of urban sewage facilities as well as the sewage collection and treatment in the urban area of Gaoyou City, with strong regional position. It mainly collects sewage and industrial wastewater via one sewage treatment plant with daily sewage treatment capacity of 59,300 tons and sewage pipe network of 143 kilometers, covering an area of around 47 square kilometers and serving around 220,000 residents. However, due to the low prices and the high depreciation of the pipe network, the profitability of water supply and sewage treatment businesses are weak, and the local government has provided subsidies to support their operations.

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. From 2021 to 2023Q1, the Company had completed 11 engineering construction projects with a total investment of around RMB267.7 million. As of 31 March 2023, it had invested RMB721.8 million into 9 engineering projects under construction, with uninvested amount of about RMB658.1 million. Although the business has exerted certain capital expenditure pressure, it is the largest source of income of the Company, accounting for 72.7%

of its total revenue in the first quarter of 2023. Given its sufficient contracts at hand, we believe the business can continue to provide supplemental income to the Company.

The Company is also involved in sales of agricultural products such as hairy crabs and Gaoyou salted duck eggs. Even though this business is still in early stages, it has showed a significant growth since 2022, providing a supplementary 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. Its paid-in capital has increased significantly from RMB120 million at the time of establishment to RMB1.4 billion as of 31 March 2023. The asset transfers not only enhance the Company's capital strength, but also support its business development. In 2022, the local government transferred water supply pipeline of RMB519 million and sewage pipe network of RMB82 million to the Company. 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.

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.

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. The Company has low reliance on non-standard financing, accounting for around 10% of total debt as of 31 March 2023. The Company plans to tap the offshore debt capital markets to broaden its funding sources.

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.

ESG Considerations

GWIG faces environmental risks because it has undertaken water conservancy infrastructure construction and sewage treatment projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

GWIG bears social risks as it implements public policy initiatives by undertaking water conservancy construction projects and providing utility services in Gaoyou City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

GWIG's governance considerations are also material as the Company is subject to oversight by the Gaoyou City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

GWIG's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its strong market position in the water conservancy infrastructure construction and water utilities of Gaoyou City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

Copyright © 2023 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