

Credit Opinion

11 January 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

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Gansu Province Electric Power Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Gansu Province Electric Power Investment Group Co., Ltd. with stable outlook.

Summary

The A_g- long-term credit rating of Gansu Province Electric Power Investment Group Co., Ltd. (“Gansu Power” or the “Company”) is underpinned by the Company’s (1) strong regional market position in the power generation sector of Gansu Province; (2) diversified power structure, with good operating efficiency; and (3) good access to diversified funding channels.

However, the rating is constrained by the Company’s (1) vulnerability to environmental protection policies and coal prices; (2) relatively weak profitability due to increased fuel costs and credit impairment losses; and (3) high debt burden with high capital expenditure pressure.

The rating also reflects our expectation of high likelihood of support from the Gansu Provincial Government, given Gansu Power’s (1) direct ownership by the Gansu Provincial State-owned Asset Investment Group Co., Ltd and ultimate control by the Gansu SASAC; (2) high strategic importance in the regional economic development and power supply; and (3) solid supporting track record from the government including project support and financial subsidiary.

The stable outlook on Gansu Power’s rating reflects our expectation that the willingness and ability of the local government to provide support to the Company is unlikely to change, and that the Company will sustain its solid market position in the power sector of Gansu Province in the next 12 to 18 months.

Rating Drivers

- High likelihood of government support from Gansu Provincial Government
- Strong regional market position in the power generation sector of Gansu Province
- Diversified power structure, with good operating efficiency
- Vulnerability to environmental protection policies and coal prices
- Relatively weak profitability due to increased fuel costs and credit impairment losses
- High debt burden with high capital expenditure pressure
- Good access to diversified funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the business environment further improves as supported by preferential government policies; (2) the Company strengthens business profile in terms of scale and diversification; (3) the Company's operating profitability continues to improve; and (4) the Company lowers its debt leverage and improves its liquidity position.

What could downgrade the rating?

The rating could be downgraded if (1) the business environment is adversely changed and the current preferential policies are no longer effective; (2) the Company's revenue declines and profitability deteriorates significantly; (3) the Company's liquidity buffer squeezes; or (4) there is material increase in capital expenditure which erodes the Company's credit metrics.

Key Indicators

	2020FY	2021FY	2022FY
EBITDA / Revenue (%)	43.7	32.6	32.0
ROA (%)	2.5	1.8	2.5
Total Capitalization Ratio (%)	53.6	54.0	54.1
RCF / CAPEX (X)	2.1	1.5	1.2
EBITDA / Interest (X)	1.7	1.5	1.9
Debt / EBITDA (X)	12.1	13.5	11.9

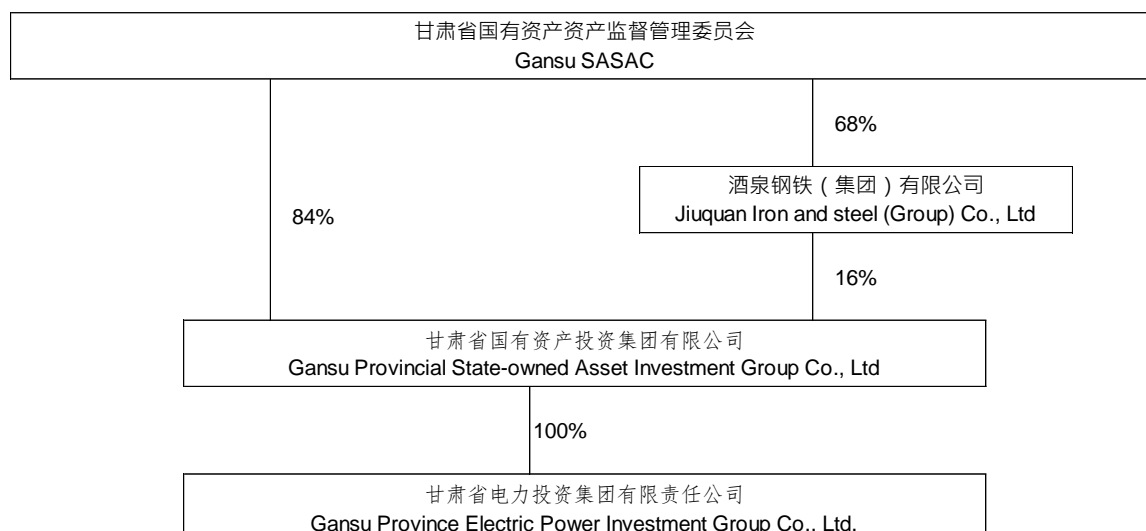
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

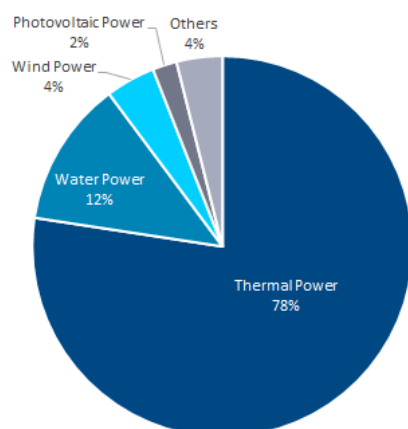
Founded in 1990, Gansu Power is a leading electric power investment enterprise in Gansu Province. The Company was established with the initial aim of providing power to, and easing the power shortage in, Gansu Province through the construction and operation of power plants and power projects. Gansu Power's other businesses mainly include energy chemicals and data information. The Company has gradually withdrawn from other market-orient businesses such as financial services, cultural development, and property development, and focuses on its core business. As of 30 September 2023, Gansu Provincial State-owned Assets Investment Group Co., Ltd directly held 100% of the Company's shares and Gansu State-owned Assets Supervision and Administration Commission ("Gansu SASAC") was its ultimate controlling shareholder.

Exhibit 1. Shareholding chart as of 30 September 2023



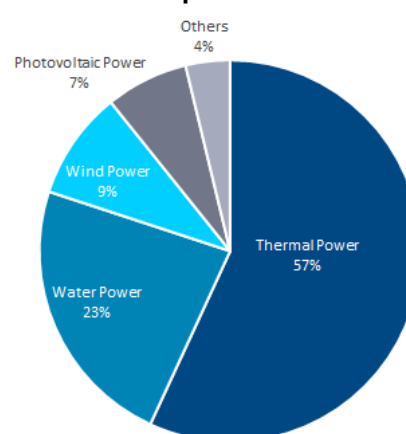
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Strong regional market position in the power generation sector of Gansu Province

Gansu Power is one of the most important state-owned power suppliers in Gansu Province, with strong market position in the power sector of the region. The Company is responsible for the investment, financing, construction, and management of provincial power generation projects, with the second largest total installed capacity in Gansu Province. As of 30 September 2023, the Company's total installed capacity was 8,365.7 megawatts ("MW"), accounting for 10.7% of total installed capacity in Gansu Province. With the ongoing growth in power demand, the Company's power generation increased from 25,021 gigawatt-hours ("GWh") in 2020 to 32,926 GWh in 2022, accounting for 16.4% of total power generated in Gansu Province. We believe the Company will maintain a strong market position in the region in the foreseeable future.

Diversified power structure, with good operating efficiency

Gansu Power's electric power investment mainly focuses on thermal power and hydropower projects, and the Company has also strategically diversified its power structure to include other clean energy such as wind power and solar power, with an aim of increasing power generated from clean and renewable sources. Diversified power structure can hedge industry risks and operation risks arising from environment changes and industry fluctuations. In addition, Gansu Power's thermal power generation has good operating efficiency, with average utilization hours higher than national average.

Thermal power generation accounts for a major portion of Gansu Power's power generation business. Its thermal power plants locate in Jinchang, Zhangye, Wuwei and Changle. As of 30 September 2023, the Company had 5 thermal power plants, with installed capacity of 4,670 MW, accounting for 55.8% of its total installed capacity. Due to the increasing power need in Gansu Province, the Company's total thermal power generation increased from 15,012 GWh in 2020 to 25,247 GWh in 2022, and its average utilization hours also increased from 4,665 hours to 5,406 hours during the same period, higher than the national average.

Gansu Power's hydropower plants mainly distribute in the Bailongjiang, Heihe, Datong River, Taohe and Yellow River basins in Gansu Province. As of 30 September 2023, the Company had 25 hydropower plants, with installed capacity of 1,822 MW, accounting for 21.8% of its total installed capacity. Since 2020, the Company's hydropower generation and equipment utilization levels have continued to decline, mainly due to poor rainfall conditions. From 2020 to 2022, the average utilization hours for hydropower decreased from 4,619 hours to 3,290 hours, while the hydropower generation dropped from 8,177 GWh to 5,981 GWh.

Gansu Power's wind power plants locate in the Jiuquan City. As of 30 September 2023, the Company had 7 wind power plants, with installed capacity of 1,104 MW, accounting for 13.2% of its total installed capacity. Affected by the depletion of wind resources in Jiuquan, the Company's wind power generation and equipment utilization levels continued to decline since 2020. However, the Company's wind power equipment utilization levels are lower than the national average and the Gansu provincial average. From 2020 to 2022, the average utilization hours for wind power decreased from 1,910 hours to 1,648 hours, while the wind power generation dropped from 1,534 GWh to 1,354 GWh.

Gansu Power also constructs and operates solar power projects in Gansu Province, which contribute a relatively small portion towards its total installed capacity. As of 30 September 2023, the Company's 17 solar power plants mainly located in Jiuquan, Wuwei and Zhangye, with installed capacity of 770 MW. In 2022, the Company's solar power generation increased due to the recovery of solar resources. From 2020 to 2022, the average utilization hours for solar power increased from 1,754 hours to 1,795 hours, while the solar power generation increased from 298 GWh to 345 GWh.

Exhibit 4. Gansu Power's total installed capacity, average utilization hours and power generation from 2020 to 2023Q3

	2020FY	2021FY	2022FY	2023Q3
Total Installed Capacity (MW)	7,413.7	7,465.7	7,715.7	8,365.7
Thermal Power	4,670.0	4,670.0	4,670.0	4,670.0
Hydropower	1,770.2	1,822.2	1,822.2	1,822.2
Wind Power	803.5	803.5	1,003.5	1,103.5
Solar Power	170.0	170.0	220.0	770.0
Average Utilization Hour (Hours)	4,186	4,279	4,389	3,163
Thermal Power	4,665	5,030	5,406	3,849

Hydropower	4,619	3,668	3,290	2,516
Wind Power	1,910	1,828	1,648	1,506
Solar Power	1,754	1,644	1,795	1,544
Power Generation (GWh)	25,021	31,771	32,927	24,638
Thermal Power	15,012	23,491	25,247	17,975
Hydropower	8,177	6,532	5,981	4,585
Wind Power	1,534	1,469	1,354	1,547
Solar Power	298	279	345	531

Source: Company information, CCXAP research

Sufficient project reserves to further enhance operational capacity

The Company has abundant project reserves, which are expected to further enhance its operating scale and efficiency after completion of construction. As of 30 September 2023, there were 5 projects under construction, with total investment of RMB22.7 billion and uninvested amount of RMB14.9 billion. The considerable power generation projects under construction can enhance operation capacity and increase installed capacity, but also exert certain level of capital pressure to the Company.

Vulnerability to environmental protection policies and coal prices

Gansu Power's power generation business mainly focus on thermal power, which has known negative effects on the environment. In recent years, the central government has enhanced environmental protection policies and heightened clean development of thermal power. Accordingly, the Company is subject to extensive and stricter environmental protection laws and regulations that impose fees for the discharge of pollutants and waste substances, and impose fines for serious environmental violations. A violation of environmental regulations or over-emissions during the construction and operation of thermal power projects may impact the Company's normal operations and profitability.

Furthermore, a majority of the Company's power plants are fueled by coal. Therefore, its operations and profitability are also directly affected by the availability and coal costs. In recent years, the coal prices have remained at high level, increasing the Company's cost of sales.

Besides, since the on-grid tariffs for renewable energy are determined by the government authorities and the utilization of renewable fuels is encouraged by the central government, clean power plants enjoy higher on-grid tariffs and the profitability level of clean power generation is higher than that of thermal power.

Relatively weak profitability due to increased fuel costs and credit impairment losses

Due to the sound growth of thermal power generation, the total revenue for Gansu Power increased from RMB7.3 billion in 2020 to RMB11.7 billion in 2022, which the revenue from thermal power and hydropower accounted for 77.4% and 12.4% of total revenue, respectively. However, due to high coal prices and non-recurring loss such as credit impairment losses, total costs of the Company increase, resulting in its relatively weak profitability. In 2022, the Company's EBITDA margin and return on assets were 32% and 2.5%, respectively. After signing long-term coal purchase contracts with coal suppliers like Xinjiang Hamihu Energy Development Co., Ltd and Guazhou Guanghui Energy Trading Co., Ltd, we expect total coal purchase cost can be controlled, reducing the volatility of its profitability.

High debt burden with high capital expenditure pressure

Gansu Power has a high debt burden due to ongoing financing for construction projects such as thermal power plants and data center industrial park. The Company's total debt increased from RMB41.0 billion at end-2020 to RMB43.9 billion at end-2022, with moderate total capitalization ratio of 54.2%. In addition, the Company's debt and interest repayment capability is modest, but improves with increase in EBITDA. From 2020 to 2022, the Company's Debt/EBITDA ratio decreased from 12.1x to 11.9x and EBITDA/Interest ratio rose from 1.7x to 1.9x. Given high future capital needs from the construction project reserves, we believe that the Company's debt burden will remain at high level for the next 12 to 18 months.

Good access to diversified funding channels

Gansu Power has diversified sources of funding including bank loans, onshore and offshore bonds, and equity financing. The Company maintains good relationship with policy banks such as China Development Bank and large domestic banks like China Construction Bank. As of 30 June 2023, the Company's total credit facilities were RMB85.1 billion, of which the unutilized amount was about RMB47.2 billion. The Company also has access to debt capital markets. As of 30 June 2023, the Company had 7 onshore bonds and 1 offshore bond, with total outstanding amount of RMB5.7 billion and USD300.0 million, respectively. Besides, Gansu Power also has equity financing channels by holding the equity interests of GEPIC Energy Development Co., Ltd. (Stock code: 000791.SZ).

External Support

High likelihood of government support from Gansu Provincial Government

We expect a high likelihood of government support from the Gansu Province Government provided to Gansu Power. This expectation incorporates our considerations of the Company's (1) direct ownership by the Gansu Provincial State-owned Asset Investment Group Co., Ltd and ultimate control by the Gansu SASAC; (2) high strategic importance in the regional economic development and power supply; and (3) solid supporting track record from the government including project support and financial subsidies.

Located in the northwest part of China and serving as key energy base, Gansu Province has very strong capacity to support Gansu Power. As one of the fast-growing areas of China, GRP of Gansu Province increased from RMB901.7 billion in 2020 to RMB1,120.1 billion in 2022. Besides, Gansu Power has large scale and important position among all the state-owned enterprises ("SOEs") of Gansu Province.

As the sole electric industrial investment entity under the Gansu SASAC for both traditional energy like thermal power and clean energy like wind power, Gansu Power is established with the aim of providing power to Gansu Province through the construction and operation of power plants and power projects throughout Gansu Province. Gansu Power has great importance in promoting electric industry development and ensuring power supply in Gansu province.

Gansu Power has very tight relationship with the local government and has solid track record of receiving support from local government. As the ultimate controlling shareholder of Gansu Power, the Gansu SASAC appoints most of the board members, and has decision rights on the Company's material decisions. Furthermore, Gansu Provincial Government provides financial subsidies to the Company every year, as the support for ensuring power supply and promoting clean energy. We expect the local government's willingness to support the Company is high, which is unlikely to change in the foreseeable future.

Rating Methodology

The methodology used in this rating is the [Rating Methodology for Electric Utilities Industry \(April 2018\)](#).

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