

Credit Opinion

2 September 2024

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

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Gaoyou Water Industry Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Gaoyou Water Industry Investment Group Co., Ltd.'s long-term credit rating at BBB_g-, 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 utilities services of Gaoyou City; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) ongoing debt growth with certain short-term debt pressure; (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 utilities services of Gaoyou City.

Rating Drivers

- Strong market position in water conservancy infrastructure construction and water utilities services of Gaoyou City
- Low exposure to commercial activities
- Good track record of receiving government support
- Ongoing debt growth with certain short-term debt pressure
- Relatively low asset liquidity
- Access to multiple funding channels
- High exposure to external guarantees, with moderate contingent liabilities risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Gaoyou City 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 improved debt management or enhanced financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Gaoyou City 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

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	14.0	15.6	17.1
Total Equity (RMB billion)	6.8	7.5	7.5
Total Revenue (RMB billion)	1.1	1.2	1.2
Total Debt/Total Capital (%)	47.9	49.0	53.0

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

Source: Company data, CCXAP research

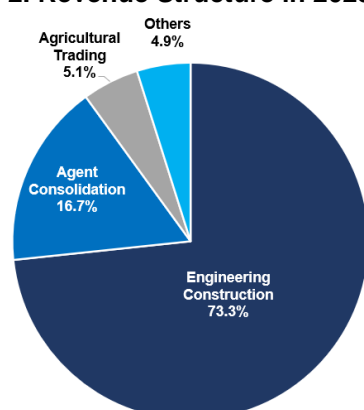
Corporate Profile

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, ecological cultural tourism, and agricultural trading. As of 31 December 2023, the Company was wholly owned by Gaoyou Construction Investment Development Group Co., Ltd. ("GCID") and ultimately controlled by Gaoyou Finance General Service Centre (Gaoyou State-owned Assets Management Centre).

Exhibit 1. Shareholding chart as of 31 December 2023

高邮市财政综合服务中心（高邮市国有资产管理中心） Gaoyou Finance General Service Centre (Gaoyou State-owned Assets Management Centre)	100%
高邮市国有资产投资管理控股(集团)有限公司 Gaoyou State-owned Assets Investment Management Holdings (Group) Co., Ltd.	100%
高邮市建设投资发展集团有限公司 Gaoyou Construction Investment Development Group Co., Ltd.	100%
高邮市水务产业投资集团有限公司 Gaoyou Water Industry Investment Group Co., Ltd.	

Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 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 and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The GRP per capita for the same period was RMB150,487, ranking first among all provinces in China.

Yangzhou City is located in the middle of Jiangsu Province and at the intersection of the Yangtze River and the Beijing-Hangzhou Grand Canal with significant geographical advantages. 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 City's GRP reached over RMB742.3 billion in 2023 and ranked medium level in all prefectural-level cities in Jiangsu Province, with a YoY growth higher than that of Jiangsu Province. In 2023,

Yangzhou Municipal Government's general budgetary revenue increased to RMB34.8 billion from RMB34.4 billion in 2021. Tax income continued to be the main source of general budgetary revenue, the average fiscal stability ratio (tax revenue/ general budget revenue) over the past three years was 77.6%. However, Yangzhou Municipal Government's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was relatively low, average ratio was 48.6% over the past three years. At the end of 2023, Yangzhou Municipal Government's debt balance was RMB121.7 billion, accounting for 16.4% of GRP.

Exhibit 3. Key economic and fiscal indicators of Yangzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	669.6	710.5	742.3
GRP Growth (%)	7.4	4.3	6.0
General Budgetary Revenue (RMB billion)	34.4	32.5	34.8
General Budgetary Expenditure (RMB billion)	68.5	69.9	71.1
Local Government Debt (RMB billion)	97.8	110.5	121.7

Source: Yangzhou Municipal Government, 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. In 2023, Gaoyou City achieved a GRP of RMB105.7 billion with a 5.9% YoY growth rate, ranking third among the districts or counties in Yangzhou City. Its general budgetary revenue increased from RMB3.9 billion in 2021 to RMB4.4 billion in 2023, while tax revenue increased from RMB3.2 billion to RMB3.6 billion over the same period. Gaoyou City has good fiscal stability, with tax revenue accounting for 80.7% of its general public budget revenue on average over the past three years. However, Gaoyou City's fiscal sufficiency remained modest, as reflected by its 3-year average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 43.1% for the period from 2021 to 2023. Gaoyou City Government highly relies on transfer income from higher-tier government and the average transfer income was around RMB3.5 billion over the past three years. At end-2023, Gaoyou City Government's outstanding government debt amounted to RMB10.9 billion, accounting for 10.3% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Gaoyou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	92.9	101.5	105.7
GRP Growth (%)	7.8	4.8	5.9
General Budgetary Revenue (RMB billion)	3.9	4.0	4.4
General Budgetary Expenditure (RMB billion)	8.8	9.5	10.2
Local Government Debt (RMB billion)	9.5	10.4	10.9

Source: Gaoyou City Government, CCXAP research

Government's Willingness to Provide Support

Strong market position in water conservancy infrastructure construction and water utilities 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 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 the 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 mainly 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 a certain markup. As of 31 December 2023, the Company's major infrastructure construction projects under construction required a total investment of RMB2.5 billion, with uninvested amount of around RMB1.3 billion. These projects mainly include environmental improvement, sewage pipe network, and reconstruction and demolition of Youdu Road. At the same time, the Company had 6 self-operated infrastructure construction projects under construction, with a total investment amount of RMB566 million and uninvested amount of RMB206 million. Although the sufficient project reserve can support the sustainability of the infrastructure construction business, it brings certain capital expenditure pressure to GWIG.

GWIG has a strong market position and competitiveness in water supply and sewage treatment services in Gaoyou City. The Company is responsible for water supply service in seven towns of Gaoyou City, covering an area of 850 square kilometers. It provides water to more than 332,000 residents via one water supply plant with daily water supply capacity of 60,000 tons and water pipe network of 2,031 kilometers. 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 a strong regional position and a 5-year franchise right (2022-2027). It mainly collects sewage and industrial wastewater via one sewage treatment plant with daily sewage treatment capacity of 57,500 tons and sewage pipe network of 143 kilometers, covering an area of around 47 square kilometers and serving around 220,000 residents. In April 2023, the local government increased the water prices in the Gaoyou City. However, due to the public nature of water supply, high maintenance costs and high depreciation of the pipe network, the profitability of water supply and sewage treatment businesses remained relatively 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 other commercial businesses such as engineering construction, ecological cultural tourism, and agricultural trading businesses. We consider the Company's exposure to commercial businesses to be relatively low, accounting for around 10% of its total assets.

GWIG'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. GWIG has multiple and professional construction qualifications to support its business including 2 first-level qualifications for general contracting. In 2023, there were 96 new contracts signed with a total contract value of RMB1.9 billion. As of 31 December 2023, the Company had 14 engineering projects under construction, with an uninvested amount of RMB947 million. Engineering construction business is the largest source of income of the Company, accounting for 73.3% of its total revenue in 2023. However, the business has also exerted certain capital

expenditure pressure to the Company. Given its sufficient contracts on hand, we believe the business could continue to provide supplemental income to the Company.

GWIG expands its business scope to ecological cultural tourism. The Company had 1 ecological cultural tourism project under construction, namely the Gaoyou City Lakeside Healthy Ecological Scenic Belt Project, with a total estimated investment amount of RMB1.0 billion. The project includes Canal West Bank Health Ecological Scenic Area, Grand Canal East Bank Water Ecological Corridor, as well as Lakeside Health Scenic Belt. The Company is expected to achieve fund balancing through operating income from cultural tourism such as ticket sales, cruise ticket sales, cultural and creative products sales, and catering. However, the operating income of the ecological cultural tourism project is uncertain and mainly affected by the number of tourists and spending intentions of tourists. We should keep attention to the operating performance after the project is put into operation in the future.

GWIG is also involved in sales of agricultural products such as hairy crabs and Gaoyou salted duck eggs. Along with continuous investment in the agricultural trading business, such as the Jiangsu Gaoyou Duck Food Processing Project, we expect that this business segment may contribute more revenue to the Company's in the future. However, this business has recorded successive losses since 2020 due to the high initial investment in the business.

Good track record of receiving government support

GWIG has a good track record of receiving support from the local government in the form of capital injection, asset transfers, project payments, and financial subsidies to support its investments and the operation of its businesses. In 2022, the local government transferred water supply network and sewage treatment network with a total book value of around RMB599.6 million to the Company, enhancing its capital strength and business operation. In 2023, the Company continued to receive various types of subsidies of approximately RMB173.2 million, including operating subsidies for the water businesses. Furthermore, the Company regularly receives project payments from the local government, totaling RMB373.1 million from 2021 to 2023. 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.

Ongoing debt growth with certain short-term debt pressure

GWIG's total debt kept increasing driven by ongoing financing for the water conservancy infrastructure projects and self-operated projects. As of 31 December 2023, the Company's total debt increased to RMB8.5 billion from RMB7.2 billion at end-2022. Meanwhile, its capitalization ratio, as measured by total debt to total capital, increased to 53.0% from 49.0%. The Company also bears certain short-term debt pressure as its short-term debt accounting for about 30.0% of total debt at end-2023. Meanwhile, the cash to short-term debt ratio was 0.2x, which could not fully cover its short-term debt. Given its relatively 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 December 2023, the Company's inventories accounted for 66.0% of its total asset. Inventories are mainly land and investment costs for infrastructure construction projects, of which are considered low liquidity. Moreover, accounts receivables and other accounts receivables totally accounted for 12.8% of its total asset, mainly including receivables of project payment and demolition payment from local government and local SOEs. Furthermore,

as of same date, the Company had pledged assets of RMB2.1 billion for loans, accounting for 12.4% of total assets.

Access to multiple funding channels

GWIG has access to multiple financing channels, including bank borrowing, onshore and offshore capital markets, and non-standard financing, which could partially release the pressure on debt repayment and capital expenditure. The Company has an approved line of credit from diversified domestic banks, such as Agricultural Development Bank of China and Industrial and Commercial Bank of China. As of 31 December 2023, it had obtained total credit facilities of RMB5.8 billion, with available credit facilities of RMB1.3 billion. In addition, the Company has been an active issuer in the onshore capital market. From January 2023 to July 2024, it had issued 8 tranches of bond products, such as PPNs and private corporate bonds, raising about RMB3.0 billion. In June 2024, the Company further expanded its financing channels to offshore capital market and issued an offshore bond to raise JPY7,700 million. Additionally, GWIG had moderate non-standard financing exposure, which accounted for around 16% of its total debts as of 31 December 2023. The main non-standard financing products are trust loans, financial leasing, factoring, and direct financing tools for wealth management.

High exposure to external guarantees, with moderate contingent liabilities risk

GWIG has a large number of external guarantees, which has constrained its credit profile. As of 31 December 2023, the Company had outstanding external guarantees of RMB7.2 billion, accounting for 96.0% of its net assets, all of which were provided to local state-owned enterprises. Although we believe the Company's overall contingent liabilities risk is moderate, 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 in Gaoyou City. 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 utilities 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.

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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