

## Credit Opinion

6 December 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

### Analyst Contacts

Christy Liu +852-2860 7127

Credit Analyst

[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Cherry Chau +852-2860 7128

Credit Analyst

[cherry\\_chau@ccxap.com](mailto:cherry_chau@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto: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

## Xi'an Gaoke Group Co., Ltd

### Surveillance credit rating report

**CCXAP affirms Xi'an Gaoke Group Co., Ltd's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Xi'an Gaoke Group Co., Ltd ("XAGK" or the "Company") reflects (1) the government of Xi'an Hi-tech Industrial Development Zone's ("Xi'an HIDZ") very strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Xi'an HIDZ's status as one of the national-level high-tech zones with good high-tech industrial fundamentals and increasing economic strength, ranking first-tier among national-level high-tech zones in China.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in the development and urban operations of Xi'an HIDZ; (2) track record of receiving government support; and (3) good access to funding with sufficient bank facilities.

However, the rating is constrained by the Company's (1) high exposure to commercial activities especially in property development; (2) high debt leverage with heightened short-term debt burden and large refinancing needs; and (3) moderate asset liquidity.

The stable outlook on XAGK's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Xi'an HIDZ over the next 12-18 months.

## Rating Drivers

- Important role in the development and urban operations of Xi'an HIDZ
- High exposure to commercial activities especially in property development
- Track record of receiving government support
- High debt leverage and moderate asset liquidity
- Good access to funding, with sufficient bank facilities

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as materially decreased exposure to commercial activities.

### 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 refinancing ability.

## Key Indicators

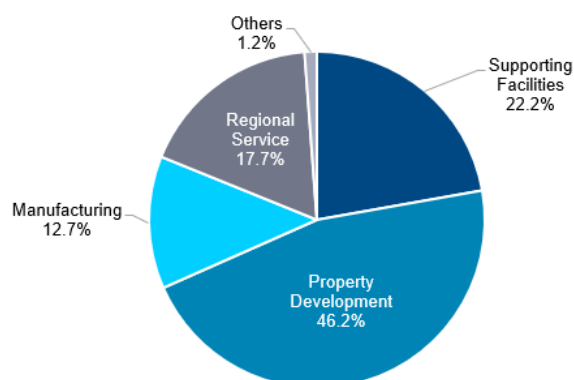
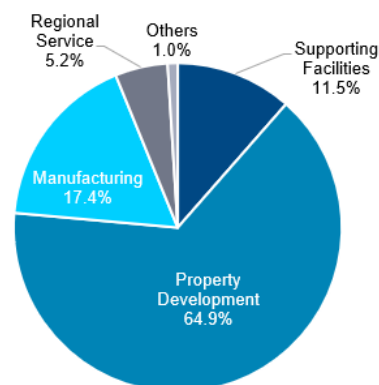
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	183.6	213.8	224.1	224.3
Total Equity (RMB billion)	20.2	23.9	22.8	22.7
Total Revenue (RMB billion)	29.2	34.5	37.5	16.0
Total Debt/Total Capital (%)	85.7	85.6	86.0	83.6

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

Source: Company data, CCXAP research

## Corporate Profile

Founded in 1992, XAGK is one of the three major state-owned enterprises directly owned by the Management Committee of Xi'an HIDZ. XAGK is positioned as the important entity of industry and urban investment and operation, responsible for regional infrastructure construction and provision of public services. XAGK also engages in diversified commercial activities, such as property development, industrial parks development and operation, manufacturing, as well as trading. As of 30 September 2024, the Company was directly and wholly owned by the Management Committee of Xi'an HIDZ.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Xi'an HIDZ Government has very strong capacity to provide support to the Company, given Xi'an HIDZ's status as one of the national-level high-tech zones with good high-tech industrial fundamentals and increasing economic strength, ranking first-tier among national-level high-tech zones in China in terms of comprehensive strength.

Xi'an City is the provincial capital of Shaanxi Province and is located in the center of Shaanxi Province. It is also a Sub-provincial City and a National Central City approved by the State Council. On the back of its geographical advantages, Xi'an City has developed six pillar industries, including electronic information manufacturing, automobiles, aerospace, high-end equipment manufacturing, new materials and new energy, as well as biomedicine. Xi'an City is the biggest city in Shaanxi Province in terms of economic size and its gross regional products ("GRP") ranked first in Shaanxi Province over the past five years. In 2023, Xi'an City reported GRP of over RMB1.2 trillion, representing a year-over-year ("YoY") growth of 5.2% and accounting for approximately 35.5% of Shaanxi Province's GRP. In the first three quarters of 2024, Xi'an's GRP reached RMB868.6 billion, a YoY increase of 3.2%. It also has good fiscal stability with tax income contributing to over 70% of the general budgetary revenue over the past three years. However, its fiscal balance ratio (calculated by general budgetary revenue/general budgetary expenditure) was moderate, recorded at 55.0% in 2023. Xi'an City also had a relatively high debt burden as its outstanding government debt was RMB403.0 billion as of 31 December 2023, accounting for 33.5% of its GRP.

**Exhibit 3. Key economic and fiscal indicators of Xi'an City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,068.8	1,148.7	1,201.1
GRP Growth (%)	4.1	4.4	5.2
General Budgetary Revenue (RMB billion)	85.6	83.4	95.2
General Budgetary Expenditure (RMB billion)	147.5	157.0	173.0
Local Government Debt (RMB billion)	323.1	362.6	403.0

Source: Xi'an Municipal Government, CCXAP research

Formed in 1991, Xi'an HIDZ is one of the first batch of national-level high-tech industrial development zones approved by the State Council, ranking first-tier among all the national-level high-tech zones since 1994. After years of development, Xi'an HIDZ has formed 3 pillar industries, including electronic information, advanced manufacturing, as well as modern service. There are a large number of high-tech enterprises settled in Xi'an HIDZ, such as Intel Corporation, Samsung Electronics Co., Ltd., Huawei Technologies Co., Ltd., Alibaba Group Holding Limited, and BYD Co. Ltd., becoming one of the largest flash memory chip production base and the largest new energy vehicle production base globally.

Supported by its comprehensive industrial structure and sound industrial fundamentals, Xi'an HIDZ has maintained a rapid economic growth in recent years. In 2023, Xi'an HIDZ's GRP increased to RMB333.3 billion from RMB310.4 billion in 2022, representing a YoY growth of 8.1% and accounting for 27.7% of Xi'an City's GRP. The local government's fiscal strength has been increasing over the past three years. Over the same period, its general budget revenue increased to RMB17.0 billion from RMB13.8 billion, ranking 1<sup>st</sup> among all counties or districts of Xi'an City since 2017. Tax, a relatively stable income source, amounted to RMB15.9 billion in 2023, accounting for 93.6% of Xi'an HIDZ's general budget revenue and 23.1% of Xi'an City's tax revenue. Xi'an HIDZ's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) rebounded to 93.7% in 2023 and is still maintained at a relatively high level. As of end-2023, Xi'an HIDZ's outstanding government debt slightly decreased to RMB27.5 billion, accounting for about 8.2% of GRP. As an important engine to promote the development of Xi'an City, we expect Xi'an HIDZ would continue to make contributions to Xi'an City.

#### Exhibit 4. Key economic and fiscal indicators of Xi'an HIDZ

	2021FY	2022FY	2023FY
GRP (RMB billion)	268.1	310.4	333.3
GRP Growth (%)	6.4	10.1	8.1
General Budgetary Revenue (RMB billion)	13.9	13.8	17.0
General Budgetary Expenditure (RMB billion)	14.0	16.9	18.2
Local Government Debt (RMB billion)	25.8	27.9	27.5

Source: Management Committee of Xi'an HIDZ, CCXAP research

### Government's Willingness to Provide Support

#### Important role in the development and urban operations of Xi'an HIDZ

As one of the three major state-owned enterprises in Xi'an HIDZ, XAGK plays an important role in regional development of Xi'an HIDZ. The Company is mainly responsible for the urban operation services and supporting facilities construction of industrial parks in Xi'an HIDZ. Considering the large number of projects undertaken by the Company, we expect that the important role of XAGK is unlikely to be replaced in the foreseeable future.

As the major entity for the urban construction, XAGK engages in supporting facilities construction of industrial parks, infrastructure construction, resettlement housing and affordable rental housing construction in Xi'an HIDZ. The Company participates in the construction of resettlement housing and affordable housing through agency construction model, government purchase model, and self-operated model. Under agency construction model, the Company signs entrusted agreements with the local government and is responsible for planning, organization of construction, and bidding of the projects. The initial construction costs of the projects were borne by the entrusting parties and XAGK would receive certain management fees. Under government purchase model, the Company would receive projects repayments since the repurchase agreements were signed with the local government. As of 31 March 2024, all the projects under government purchase model were completed,

with a total investment amount of RMB4.6 billion and project repayment of RMB3.4 billion. At the same time, there was no projects under construction or planning under agency construction model and government purchase model.

XAGK now mainly undertakes resettlement housing and affordable rental housing constructions under self-operated model, and is responsible for financing of the projects. For the resettlement housing projects, the Company would achieve fund balance by selling the resettlement housing to resettlement households. The selling price is generally lower than the market price. For the affordable rental housing projects, the investment is expected to be balanced through rental income. The local government would also provide subsidies of RMB1,500 per square meter for the construction of affordable rental housing. As of 31 March 2024, there were 14 projects under construction, with a total investment of RMB41.4 billion and uninvested amount of RMB10.5 billion.

XAGK also provides heat supply service for the enterprises and residents in Xi'an HIDZ. The Company is responsible for the design, installation, repairment, maintenance, and renovation of the main heating equipment and pipelines in Xi'an HIDZ. As of 30 September 2024, the Company owned 4 thermal centers, 29 distributed heat sources, and steam and hot water pipe network of 156 kilometers, with a total heating coverage of 40.5 million square meters. As of 31 March 2024, the Company also had one heating pipe network project under construction, with an uninvested amount of RMB148.0 million.

### **High exposure to commercial activities especially in property development**

XAGK also engages in diversified commercial activities, such as property development, manufacturing, as well as trading. We consider the Company's exposure to commercial businesses to be high, especially in property development during the downturn of China's real estate market. Moreover, there was certain recovery risk arising from its manufacturing and trading businesses.

XAGK conducts property development business mainly through its subsidiaries Tande Co., Ltd. ("Tande", stock code: 600665.SH), Xi'an High-tech Industrial Development Zone Real Estate Development Company, and Xi'an Ziwei Real Estate Development Co., Ltd. The property development business is mainly commercial residential housings that were concentrated in Xi'an City, with a strategic layout in other cities such as Shanghai, Suzhou, Tianjin and Shenzhen. As of 31 March 2024, most of the completed commercial housings were sold. The Company's contracted sales rebounded in 2023, increased from RMB14.7 billion in 2022 to RMB18.3 billion in 2023. As of the same date, the projects under construction had a total investment of RMB113.6 billion and an outstanding investment of RMB38.6 billion. Meanwhile, some of these projects under construction were sold in advance, with received payments of RMB48.7 billion. The Company also had 6 projects under planning, with a total investment of RMB11.4 billion. Since 2023, the Company has slowed down the pace of land acquisition, and the Company only newly acquired a piece of land in 2023. As of the end of March 2024, the Company had land reserve of 766,800 square meters, mainly located in Xi'an City. Overall, the gross profit margin of the property development business fluctuated but remained at over 15% over the past three years. However, the large amount of uninvested projects poses large capital expenditure pressure to the Company, which will be largely relied on external financing. Moreover, increasing investment in property development may bring more operating uncertainties and financial risks to the Company as the property sales are easily affected by the market conditions.

XAGK engages in industrial parks development and operation to promote the development of local high-tech industries. The Company undertakes the responsibilities of financing, construction, operation of industrial parks and is expected to achieve fund balance through leasing income. As of 31 March 2024, the Company had a

total leasable area of 1.6 million square meters, including software research and development base, high-tech medical industrial park, new generation artificial intelligence park, and digital economy industrial park, with high occupancy rates, which could provide supplementary revenue to XAGK. The main tenants are high-tech enterprises settled in Xi'an HIDZ. As of 31 March 2024, there were 2 projects under construction, with a total investment of RMB9.6 billion and an uninvested amount of RMB7.5 billion. However, the Company's investments require long holding periods, which may expose the Company to larger investment and execution risks.

The Company's manufacturing segment mainly consists of building materials, curtain walls, doors and windows, concrete and medicine, increasing the business diversify of XAGK. The Company is also actively integrating the concept of intelligent manufacturing and green development, and has become a modern green and environmentally friendly material supplier. Mainly affected by the downturn of real estate market, the revenue from curtain walls, doors and windows segment continued to decrease from RMB2.0 billion in 2022 to RMB1.6 billion in 2023. In addition, the Company's subsidiary, Xi'an Gaoke Curtain Wall Doors and Windows Co., Ltd. ("GKCD") has established a long-term comprehensive strategic partnership with various property developers, such as China Vanke Co. Ltd., and is the sole partner of foreign material suppliers in Shanxi Province, such as Schüco International. However, GKCD is listed as dishonest judgment debtor for several times due to the dispute case arising from the overdue payments from China Evergrande Group ("Evergrande"). As of 31 March 2024, GKCD had bill receivable of RMB65 million from Evergrande, indicating certain recovery risk. GKCD is negotiating and resolving the bill disputes through various methods such as collateral assets or reconciliation.

In addition, the Company participates in trading business, including supply of steel, concrete, and supporting equipment. The Company adopts demand-on-purchase mode which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. The Company usually make upfront payments to suppliers before receiving goods. However, the Company's capital repatriation cycle has been prolonged due to the overdue receivables, leading to deterioration in profitability. Besides, this business faces relatively high concentration risk, as its top 5 suppliers and customers accounted for more than 55% of its procurement and sales in 2023, respectively. One of the suppliers, Xi'an Maike Metal International Group Co. Ltd. ("MK Group"), has encountered financial difficulties in business operation. As of 31 December 2023, the outstanding prepayment to MK Group was RMB251 million. The Company has stopped the trading business with MK Group since August 2022. In 2023, the revenue from trading business decreased to RMB5.7 billion from RMB8.2 billion in 2022, while the net profit of this business sector recorded a net loss.

### **Track record of receiving government support**

XAGK has a track record of receiving support from the local government, such as operating subsidiaries, capital injection, equity transfer, government payment, as well as asset injection. In 2023, the local government provided operating subsidiaries of around RMB50.3 million. Meanwhile, the Company continued to receive capital injection from the local government, including asset injection and equity transfer, increasing capital reserve and further enhancing the business scope and capital strength of XAGK. For instance, the Company received capital injection of RMB46.0 million from the High-tech Management Committee in 2023. Considering the Company's important role in regional development and urban operations of Xi'an HIDZ, we expect XAGK will continue to receive support from the local government.

### **High debt leverage and moderate asset liquidity**

With the continuous financing for construction projects, XAGK's debt leverage remains high, and its refinancing pressure is still large. As of 30 September 2024, the Company's total debt increased to RMB131.3 billion from



RMB117.6 billion as of end-2022. Meanwhile, its total capitalization ratio, as measured by total debt to total capital, was recorded at 83.4%. Over the same period, the Company's short-term debt increased to RMB48.8 billion from RMB35.6 billion, accounting for 37.3% of total debt, indicating certain short-term refinancing pressure. Considering the large number of uninvested amounts in resettlement housing and property development projects, we estimate the Company would continue to rely on external financing such as bank loans to support its business, and its total debt would maintain at a high level over the next 12-18 months.

XAGK's asset liquidity was relatively weak. As of 30 September 2024, XAGK's inventories, receivables, investment properties, and construction in progress accounted for 83.0% of the total assets. Majority of these assets were considered low liquidity. Inventories accounted for more than half of the total assets, which were mainly construction costs of real estate and infrastructure construction projects. Meanwhile, the total restricted assets of XAGK were RMB21.3 billion, including inventories, investment properties, cash, fixed assets, and long-term equity investment, accounting for 9.3% of total assets. The restricted assets were mainly assets pledged for loans.

The Company's investment income increased significantly from RMB12.9 million in 2022 to RMB453.0 million in 2023, mainly due to the investment income generated from the disposal of Xi'an Tangsong Real Estate Development Co., Ltd. In addition, there was a substantial increase in the provision for impairment losses in 2023, from RMB129.1 million in 2022 to RMB684.9 million in 2023, owing to the sales of some commercial housing being lower than expected.

#### **Good access to funding with sufficient bank facilities**

XAGK has a good access to funding channels such as bank loans, onshore bonds, and non-standard financing. Bank loans contribute the most of total debts, which accounted for more than 65% as of 30 September 2024. The Company has built long-term and close relationships with policy banks, major state-owned banks and national joint-stock commercial banks in China, including China Development Bank, Agricultural Development Bank of China, Bank of China Limited, and China CITIC Bank Corporation Limited. As of 30 September 2024, it received total bank credit facilities of RMB203.1 billion and the available portion being RMB46.5 billion. The Company also has a track record for fund-raising activities in capital market. For example, the Company issued one tranche of corporate bond, raising RMB2.2 billion in March 2024. In addition, the Company's exposure to non-standard products such as financial leasing and trust loans decrease, accounting for around 20% of the total debts.

### **ESG Considerations**

XAGK faces environmental risks because it has undertaken urban infrastructure construction and property development 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.

XAGK bears social risks as it is engaged in provision of public services in Xi'an HIDZ. 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.

In terms of corporate governance, the Company is subject to oversight by the local 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 \(July 2022\)](#).



Copyright © 2024 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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656