

CCXAP assigns first time long-term credit rating of BBB_g+ to Xi'an Gaoke Group Co., Ltd, with stable outlook.

Hong Kong, 24 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Xi'an Gaoke Group Co., Ltd (“XAGK” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of XAGK reflects the government of Xi'an Hi-tech Industrial Development Zone's (“Xi'an HIDZ”) (1) very 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 the local government's capacity to 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 support, which is based on the Company's (1) important role in the development and urban operations of Xi'an HIDZ; (2) good 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 debt burden and refinancing needs; and (3) moderate asset liquidity.

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 an industry and urban investment operator, 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 June 2023, the Company was directly and wholly owned by the Management Committee of Xi'an HIDZ.

Rating Rationale

Credit Strengths

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.

Good track record of receiving government support. XAGK has a good track record of receiving support from the local government, such as operating subsidiaries, capital injection, equity transfer, government payment, as well as asset injection. 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.

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. As of 30 June 2023, it received total bank credit facilities of RMB118.9 billion and the available portion being RMB28.3 billion. The Company also has certain exposure to non-standard products such as financial leasing and trust loans, accounting for more than 30% of the total debts. The Company now has a clear internal control over high-cost financing channels, such as no acceptance of financing channels with cost higher than 9%.

Credit Challenges

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.

High debt leverage with heightened debt burden and refinancing needs. With the continuous financing for construction projects, XAGK's debt leverage remains high, and its refinancing pressure is still large. Considering the large number of uninvested amount 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.

Moderate asset liquidity. XAGK's asset liquidity was relatively weak. As of 30 June 2023, XAGK's inventories, receivables, investment properties, and construction in progress accounted for 76% of the total assets. Majority of these assets were considered low liquidity. Meanwhile, the total restricted assets of XAGK were RMB21.0 billion, including inventories, investment properties, cash, fixed assets, and long-term equity investment, accounting for 92.3% of net assets. The restricted assets were mainly assets pledged for loans.

Rating Outlook

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.

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.

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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