

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

Hong Kong, 11 January 2024– China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a long-term credit rating of A_g- to Gansu Province Electric Power Investment Group Co., Ltd, with stable outlook.

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.

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 The Company has gradually withdrawn from other market-orient businesses such as financial services, cultural development, and property development, and focuses on its core business.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.

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.

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).

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.

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.

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%. 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.

Rating Outlook

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.

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.

Rating Methodology

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

Regulatory Disclosures

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Peter Chong

Assistant Director of Credit Ratings

+852-2860 7124

peter_chong@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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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