CCXAP affirms Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 11 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd. ("GJID" or the "Company") reflects Gaoyao District Government's strong capacity to provide support, and very high willingness to provide support to the Company based on our assessment of the Company's characteristics. Our assessment of Gaoyao District Government's capacity to provide support reflects its leading economic status in Zhaoqing City, with great economic potential and a stable fiscal profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important strategic position in Gaoyao District and Jinli High-tech Zone; (2) high sustainability of infrastructure construction business; and (3) solid track record of receiving governmental supports. However, the Company's rating is constrained by the Company's (1) increasing debt burden and moderate asset liquidity; (2) high reliance on non-standard financing; and (3) medium contingent liability risk from external debt guarantees.

Corporate Profile

Founded in 2017, GJID is an important local infrastructure investment and financing company ("LIIFC") in Gaoyao District of Zhaoqing City. The Company primarily engages in infrastructure construction business. It is also engaged in some commercial businesses, such as trading, property leasing, and catering. As of 31 December 2023, the Company was wholly owned by Zhaoqing Gaosheng City Investment Development Co., Ltd. GJID is ultimately controlled by the State-owned Assets Supervision and Administration Bureau of Gaoyao District of Zhaoqing City ("Gaoyao SASAB"). As of the same date, the registered capital of the Company was RMB276 million.

Rating Rationale

Credit Strengths

Important strategic position in Gaoyao District and Jinli High-tech Zone. Apart from the Company, there are other three main LIIFCs in Gaoyao District, each with clear positioning in the infrastructure development of Gaoyao City. GJID is primarily responsible for the infrastructure construction in the new urban area of Gaoyao District and Jinli High-tech Zone. As an important infrastructure construction entity in Gaoyao District and the sole infrastructure construction entity in Jinli High-tech Zone, the Company actively participates in various infrastructure projects, effectively facilitating the urbanization and regional economic development of Gaoyao District. Considering the Company's high strategic significance to the development of Gaoyao District and Jinli High-tech Zone, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of infrastructure construction business. GJID mainly engages in infrastructure construction and land transfer businesses and broadens its business scope to demolishment and reclamation of rural construction land in Gaoyao District as a result of the injection of Zhaoqing Gaoyao Kaiyuan Urban Construction Development Co., Ltd. and its subsidiariesinto the Company without compensation in March 2024. Given the considerable construction projects in the pipeline, the infrastructure construction business has high sustainability, but bringing large capital expenditure pressure.

Solid track record of receiving governmental supports. In recognition of the importance of public activities in Gaoyao District, GJID has received ongoing support from the local government in the form of capital injection, asset transfer, special funds and government subsidies. Given GJID's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

Credit Challenges

Increasing debt burden and moderate asset liquidity. The Company's total debt increased from RMB4.8 billion at end-2021 to RMB10.5 billion at end-2023, with a relatively high capitalization ratio of 54.1%. Considering its large construction projects in the pipeline, we expect the Company will continue to rely on external financing to meet its future capital needs, and its debt leverage will remain at a relatively high level in the next 12 to 18 months.

The Company's asset liquidity is also moderate, which may undermine its financing flexibility. At end-2023, its assets mainly consisted of inventories and receivables, accounting for 74.2% of the total assets, both of which are considered low liquidity. However, the investment properties can provide supplementary income and cash flow to the Company, although their scale are relatively small. As of 31 December 2023, the Company had investment properties of RMB3.2 billion, accounting for 14.8% of total assets.

High reliance on non-standard financing. GJID has a high reliance on non-standard financing, which carries higher costs and refinancing risk. As of 31 December 2023, its non-standard financing accounted for more than 30% of total debt with average financing cost of 6.9%. We expect the Company will continue to broaden its financing channels by increasing credit facilities and issuing onshore bonds and improve debt structure by reducing the proportion of non-standard debts.

Medium contingent liability risk from external debt guarantees. As of 31 December 2023, the Company had outstanding external guarantees of RMB5.2 billion, accounting for 58.0% of its net assets. All the external guarantees are provided to local state-owned enterprises in Gaoyao District as mutual guarantees between local SOEs are common in the region. Considering that most of these local SOEs are expected to be supported by the local government when necessary, we believe contingent risk would be controllable.

Rating Outlook

The stable outlook on GJID's rating reflects our expectation that the Company will maintain its important position in Gaoyao District. We also expect that the Company will continue to receive ongoing government support.

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 improvement in debt management and material reduction in external guarantee.

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 decrease the local government's willingness to provide support, such as decrease in its strategic significance or increase in commercial exposure.

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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