

CCXAP affirms Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd.'s long-term credit rating of BBB_g-, with stable outlook.

Hong Kong, 25 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd. (“GSAO” or the “Company”) at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of GSAO reflects the Gaoyao District Government’s (1) strong capacity to provide support, and (2) very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Gaoyao District Government’s capacity to provide support reflects its leading economic status in Zhaoqing City, with economic growth potential and stable fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important position in infrastructure construction and water supply of Gaoyao District; (2) good track record of receiving governmental payments; and (3) reasonable debt leverage. However, the Company’s rating is constrained by the Company’s (1) high short-term debt repayment pressure; (2) moderate access to funding with high reliance on non-standard fundings; and (3) medium contingent liability risk from external debt guarantees.

Corporate Profile

Founded in 1994, GSAO is a key state-owned enterprise in Gaoyao District of Zhaoqing City. The Company is mainly engaged in public policy businesses such as infrastructure construction and water supply, and commercial businesses such as metal trading, sale of civil explosives, provision of security services, property leasing, engineering construction and self-operated projects construction. In November 2022, under the approval of the Gaoyao District government, the 90% of equity interests of the Company were transferred to Zhaoqing Gaosheng Urban Investment Development Co., Ltd. (“GSUI”) from the State-owned Assets Supervision and Administration Bureau of Gaoyao District of Zhaoqing City (“Gaoyao SASAB”), who still was the ultimate controlling shareholder of the Company, holding 90% of the Company’s equity interests through GSUI, while the Department of Finance of Guangdong Province held the remaining 10% as of 31 December 2023.

Rating Rationale

Credit Strengths

Important position in infrastructure construction and water supply of Gaoyao District.

GSAO is mainly responsible for the operation of state-owned assets as well as the infrastructure construction in the old urban area of Gaoyao District. GSAO plays an important strategic role in supporting and promoting the urbanization and industrialization of Gaoyao District. We believe that GSAO’s important role in the development of Gaoyao District and its public welfare functions are unlikely to be replaced in the short-to-medium term.

Good track record of receiving government payments. GSAO has a good track record of receiving ongoing government payments, in the form of operating subsidies, capital injections, project payments, and high-quality asset transfers. Additionally, Gaoyao SASAB plans to further transfer assets to the Company, and will also provide operational subsidies to support the Company's growth and expansion in line with its business needs. Given its important strategic position in Gaoyao District, we expect the local government will provide ongoing and stable support to the Company.

Reasonable debt leverage. As of end-2023, the Company's total debt increased 19.2% YoY from RMB6.5 billion in 2022 to RMB7.8 billion in 2023 while the total capitalization ratio rose from 36.2% to 39.4% during the same period, which is reasonable.

Credit Challenges

High short-term debt repayment pressure. As of 31 December 2023, its short-term debt accounted for around 54.4% of total debt. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.1x, indicating large debt refinancing needs. Given the Company's future capital expenditure pressure for its investment and construction projects, we expect the Company will continue to rely on external financing to meet its future capital expenditures and its debt leverage will increase in the next 12 to 18 months.

Moderate access to funding with high reliance on non-standard fundings. GSAO shows moderate access to funding, as it mainly relies on bank loans and non-standard financing, which may increase its refinancing risk. As of 31 December 2023, the Company's non-standard debts accounted for about 45.1% of its total debt. However, we believe the Company's refinancing risk can be partially alleviated by its sufficient standby liquidity. As of 31 December 2023, the Company had total credit facilities of RMB7.2 billion, with unutilized portion of RMB2.9 billion.

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 43.6% of its net assets. All the external guarantees are provided to local state-owned enterprises in Gaoyao District, mostly to Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd., 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 GSAO's rating reflects our expectation that the local government's capacity to provide support will remain stable, and that the Company will maintain its important position of infrastructure construction and water supply in Gaoyao District and 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 access to funding and asset quality.

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 reduced regional significance or increase in exposure to commercial activities.

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

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:
http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

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.

Karissa Du
Credit Analyst
+852-2860 7126
karissa_du@ccxap.com



Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656