Credit Opinion

24 October 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g
Outlook	stable

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Fengyang County Xiaogang Industrial Development Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Fengyang County Xiaogang Industrial Development Investment Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Fengyang County Xiaogang Industrial Development Investment Co., Ltd. ("FXID" or the "Company") is underpinned by the Company's (1) strategic role in industrial development of Fengyang County through asset leasing and industrial fund investments; and (2) regional exclusivity in water supply operation and ore sales.

However, the rating is also constrained by the Company's (1) relatively small revenue scale and relatively weak profitability; (2) increasing debt burden driven by large capital expenditure needs; and (3) modest debt servicing capability with limited financial flexibility.

The rating also reflects our expectation of a very high likelihood of strong support from the Fengyang County Government and its parent company, Fengyang County Haozhou Investment Group Co., Ltd. ("FHIG"), when necessary, given the Company's (1) status as a key subsidiary of FHIG, which is ultimately owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Fengyang County ("Fengyang SASAC") and controlled by the Fengyang County Government; (2) important role in the operation of state-owned assets and investment in key industries in Fengyang County; and (3) good track record of receiving government supports.

The stable outlook on FXID's rating reflects our expectation that the Company will maintain its regional competitiveness, serving as an important industrial development platform in Fengyang County over the next 12-18 months.

Rating Drivers

- Very high likelihood of strong support from the Fengyang County Government and its parent company
- Strategic role in industrial development of Fengyang County through asset leasing and industrial fund investments
- Regional exclusivity in water supply operation and ore sales
- Relatively small revenue scale and relatively weak profitability
- Increasing debt burden driven by large capital expenditure needs
- Modest debt servicing capability with limited financial flexibility

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the parent company's capacity or willingness to provide support strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as a stronger market position and improvement in profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the credit quality of the parent company deteriorates or the likelihood of parental support is expected to be weakened; or (2) the Company's standalone credit quality worsens significantly, including a material drop in credit metrics and poor debt management.

Key Indicators

	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	4.6	6.7	7.6
Total Equity (RMB billion)	2.5	2.6	2.7
Total Revenue (RMB million)	74.2	98.5	14.7
Net Profits (RMB million)	5.6	12.1	-19.1
EBIT Margin (%)	40.9	21.8	-
Return on Assets (%)	0.7	0.4	-
Total Debt/Total Capital (%)	44.5	56.7	61.4
Total Debt/EBITDA (x)	37.0	66.9	-
EBITDA/Interest (x)	1.1	1.2	-
FFO/Total debt (%)	-1.0	-1.9	-

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

Source: Company data, CCXAP research

Corporate Profile

Founded by Fengyang SASAC in 2019, FXID is an important industrial investment platform and state-owned assets operator in Fengyang County, mainly engaging in property leasing, water supply, ore sales and fund investments in the region. In September 2023, the Company's controlling shareholder changed from Fengyang SASAC to FHIG. As of 31 March 2025, FHIG holds 100.0% equity of the Company, serving as the sole shareholder, while Fengyang SASAC is the Company's ultimate owner. To meet the requirements of market-oriented transformation, the Company carried out an asset restructuring in 2023, during which infrastructure construction projects under the agent-construction model managed by its subsidiaries were transferred out of the Company. As of the same date, the registered capital of the Company was RMB2.0 billion and paid-in capital was RMB1.1 billion.

Exhibit 1. Revenue structure in 2024

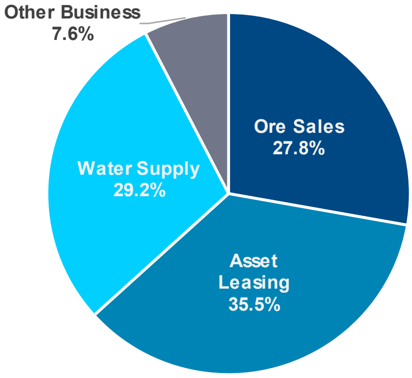
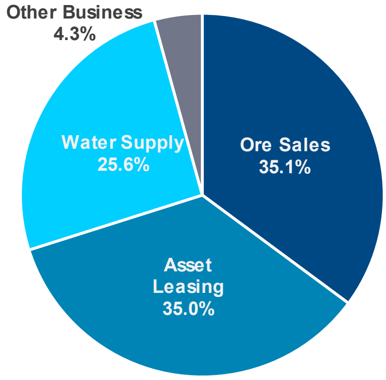
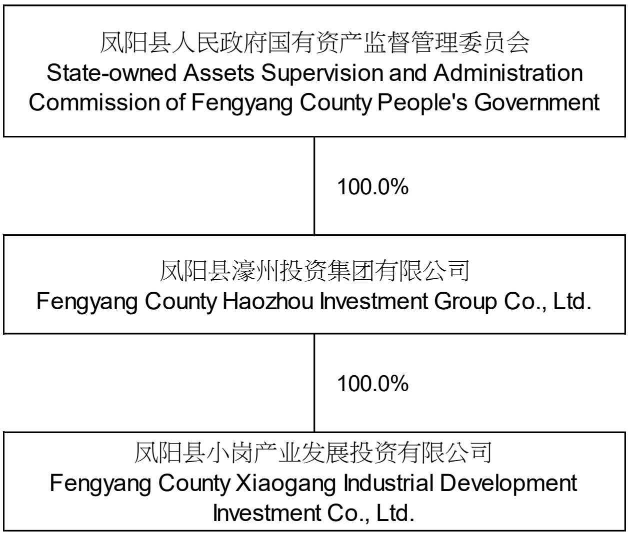


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Strategic role in industrial development of Fengyang County through asset leasing and industrial fund investments

FXID plays a pivotal role in advancing the development of Fengyang County's leading industries. The Company serves two major industries of the county, namely the silicon-based materials industry and the health food industry. Fengyang County is rich in resources, with its quartzite reserves being utilized for producing photovoltaic products and specialty glass, forming the foundation for the silicon-based industry. The health food industry leverages the historical significance and high political profile of Xiaogang Village. The Company engages in these sectors primarily through asset leasing and industrial fund investments. We believe the

Company is of significant importance to Fengyang County's industrial development, and its activities are well-aligned with the government's long-term policy strategies, thereby promoting sustainable regional economic growth and industrial expansion.

The asset leasing business is the largest income source of the Company, accounting for around 35.5% of total revenue in 2024, with a gross profit margin of 51.9%. Leasable assets include self-built and acquired industrial parks, commercial properties, as well as the office buildings, affordable housing, and pipe network transferred from the local government. As of 31 March 2025, the total leasable area of the Company's factory buildings and office spaces amounted to 279.3 thousand square meters. Concurrently, the ongoing industrial park construction projects may exert certain capital expenditure pressure on the Company. As of 31 March 2025, the Company had 5 projects under construction or planning, with a total planned investment of RMB1.5 billion, of which RMB1.4 billion remained to be invested. All of these projects are financed through bank loans, and upon completion the Company intends to either lease or sell the resulting factories. The Company also leases its pipe network to a local water supplier, with annual rental fee of RMB20.0 million.

FXID also invests in industries such as photovoltaics, new energy, and food processing through industrial funds. As of 31 March 2025, the Company had participated in 5 funds with a total committed capital amounted to RMB1.5 billion, of which RMB503.6 million had been paid-in. All invested projects are still at a relatively early stage and have not yet generated any returns. Furthermore, the Company has invested approximately RMB338.0 million into two of its invested targets that have been designated as a judicially-enforced debtor, imposing certain investment recovery risks on the Company.

Regional exclusivity in water supply operation and ore sales

FXID's water supply business is operated by its subsidiary, Fengyang Mingzhongdu Water Group Co., Ltd. (“FMWG”), which is responsible for water supply and sewage treatment across Fengyang County's townships and the Economic Development Zone. As of 31 March 2025, FMWG operated 8 water treatment plants with a combined designed daily water supply capacity of 79,000 tons. In 2023, 2024 and the first quarter of 2025, revenues from water operations amounted to RMB16.6 million, RMB28.7 million, and RMB4.8 million, respectively. As of 31 March 2025, there were 2 water infrastructure projects under construction, including sewage treatment plants, with a total planned investment of RMB377.5 million and an uninvested amount of RMB128.8 million, and it also had 4 planned projects with a total estimated investment of RMB185.2 million, indicating certain funding pressure. Upon completion of sewage treatment plants, the Company will be responsible for sewage treatment services, generating corresponding sewage treatment revenue.

In 2024, the Fengyang SASAC granted the Company the disposal rights for surplus ore from 5 abandoned mine sites. FXID is responsible for the sales of surplus ore resulting from the ecological restoration of abandoned mines across five towns in the county. Specifically, the Fengyang County Government carries out ecological restoration projects for these abandoned mines and assigned the Company to oversee and manage the restoration process. The Company sell ore produced during restoration via public auction, with all proceeds recognized as company revenue. As of 31 March 2025, the Company’s ore reserve totaled 3.6 million tons, with an estimated total value of RMB359.1 million. This business is a significant revenue stream for the Company, accounting for around 27.8% of total income in 2024 with a high gross profit margin of 66.6%. Additionally, the business has generated substantial contract liabilities, with a balance of approximately RMB250.0 million as of the end of March 2025, which secures a pipeline of future revenue. However, the scale of this business is subject to uncertainty and volatility, as the supply of ore for sale depends entirely on allocations based on the government's mine restoration project planning.

Financial Profile

Relatively small revenue scale and relatively weak profitability

Benefiting from the commencement of ore sales in 2024, the Company's total revenue increased from RMB74.2 million in 2023 to RMB98.5 million in 2024, representing a 32.7% YoY growth. Moreover, ore sales business has already generated substantial contract liabilities, indicating potential for future revenue growth. In 2024, revenue was primarily derived from asset leasing (35.5%), water supply (29.2%), and ore sales (27.8%). Among these segments, the water supply business has demonstrated relative stability, with both revenue and gross profit showing a consistent upward trend year-over-year. However, the Company's administrative expenses remain relatively high, with its period expense ratio decreasing from 47.0% in 2023 to 32.1% in 2024.

FXID's profitability is relatively weak as reflected by the weak return on assets ("ROA") and moderate EBIT margin. From 2023 to 2024, the Company's gross profit margin declined slightly from 58.0% to 52.7% and EBIT margin decreased from 40.9% to 21.8%, mainly driven by reduced profitability of asset leasing business. The Company's assets are mainly non-current assets, resulting in limited liquidity and relatively low return. ROA fell from 0.7% in 2023 to 0.4% in 2024, mainly reflecting the increase in fund investments that have not yet generated returns, as well as a rise in construction-in-progress. Overall, FXID's diversified business portfolio could partially support its income over the next 12 to 18 months. However, the Company's profitability is expected to remain relatively weak.

Increasing debt burden driven by large capital expenditure needs

FXID's debt burden has increased alongside business expansion, with total debt rising from RMB2.0 billion at the end of 2023 to RMB4.3 billion as of 31 March 2025, with a relatively high total capitalization ratio of 61.4%. In addition, the Company's debt maturing structure is reasonable, its short-term debt accounted for about 11.9% of its total debt as of 31 March 2025. After excluding restricted cash, the cash-to-short-term debt ratio was 2.0x, indicating that its cash reserves can fully cover short-term debt. Considering the further development of its diversified business and ongoing investment needs for its construction projects, we expect that the Company will rely on external financings to meet its capital expenditures needs and the total debt level will continue to increase.

FXID bears certain contingent risk resulting from its moderate external guarantees, which could potentially increase its repayment obligations. As of 31 March 2025, the Company's external guarantees amounted to RMB952.3 million, accounting for around 35.0% of its net assets. These external guarantees were provided to other SOEs in Fengyang County that are likely to be supported by the local government when necessary, thereby keeping the contingent risk manageable.

Modest debt servicing capability with limited financial flexibility

Due to FXID's increasing debt burden and relatively weak profitability, it has modest debt servicing capability. The Company's total debt/EBITDA ratio increased from 37.0x in 2023 to 66.9x in 2024, despite a slight improvement in its EBITDA interest coverage ratio increasing from 1.1x to 1.2x over the same period. In the meantime, its FFO/total debt ratio remained negative due to ongoing operating cash outflows, indicating that the Company primarily relies on external financing rather than operating cash flow for debt servicing.

In addition, FXID has limited access to funding as its financing channels are bank loans and non-standard financing. The Company has good relationship with multiple domestic policy banks and commercial banks, such as Agricultural Development Bank of China and China Development Bank. As of 31 March 2025, the total credit facilities were RMB7.9 billion, with an unutilized portion of RMB3.4 billion, indicating sufficient standby liquidity. The Company has a relatively low exposure to non-standard financing, which accounted for 9.2% of its total debts as of 31 March 2025. We expect that the Company will continue to broaden its financing channels, such as issuing onshore or offshore bonds.

External Support

Very high likelihood of strong support from the Fengyang County Government and its parent Company

We anticipate FXID has a very high likelihood of support from the Fengyang County Government and its parent company when necessary, given its (1) status as a key subsidiary of FHIG, which is ultimately owned and controlled by Fengyang SASAC; (2) important role in the operation of state-owned assets and investment in key industries in Fengyang County; and (3) good track record of receiving government supports.

We believe that the Fengyang County Government has strong capacity to provide support, underpinned by its leading economic status in Chuzhou City and a moderate fiscal profile. Rich in mineral resources and guided by the "strengthen the county through industry" strategy, Fengyang County has sustained rapid growth in both the secondary and tertiary industries. In 2024, Fengyang County recorded a GRP of RMB58.6 billion, ranking 2nd among all counties and districts in Chuzhou City, representing a YoY growth of 6.1%. In 2025H1, Fengyang County achieved GRP of RMB29.7 billion, up 4.3% YoY. This solid economic growth provides strong backing for the county's fiscal strength. In 2024, Fengyang County realized a general public budget revenue of RMB5.0 billion, also ranking 2nd in Chuzhou City, representing a YoY growth of 11.1%, with its fiscal balance ratio stood at 66.1%.

Ultimately owned and controlled by the Fengyang SASAC, FHIG is the most important industrial investment and state-owned assets operation entity in Fengyang County. In addition, the Fengyang District Government maintains a high degree of control over FXID's operations through FHIG, including the formulation of business strategies and the appointment of the board of directors and key management personnel. FXID is also required to report its annual budget, objectives, plans and performance to Fengyang SASAC.

FXID has a good track record of receiving ongoing support from the local government in terms of its business expansion, asset injections and financial subsidies. The Fengyang County Government granted the Company the disposal rights to surplus ore produced during abandoned mines ecological restoration projects, which turned out to be one of the major revenue sources of the Company. Fengyang SASAC also transferred assets including real estates and equity of other companies to the Company, increasing its capital reserve by RMB236.0 million from 2023 to the first quarter of 2025. From 2023 to 2024, the Company received government subsidies of RMB1.5 million to support its operation.

ESG Considerations

FXID faces environmental risks because it has undertaken major infrastructure construction 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.

The Company bears social risks as it implements public policy initiatives by building public infrastructure and industrial parks in Fengyang County. 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.

FXID's governance considerations are also material as the Company is subject to oversight by Fengyang SASAC 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 General Corporate (April 2019).

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