

Credit Opinion

15 May 2026

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BB _g +
Outlook	Stable

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Kangda International Environmental Company Limited

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BB_g+ to Kangda International Environmental Company Limited, with stable outlook.

Summary

The BB_g+ long-term credit rating of Kangda International Environmental Company Limited (“Kangda” or the “Company”) reflects the Company’s (1) stable business profile with long-term concession periods and low concentration risk; (2) steady sewage treatment volume and capacity; and (3) stable revenue growth and profitability.

However, the rating is also constrained by (1) fragmented sewage treatment industry dominated by state-owned enterprises (SOEs); (2) the Company’s exposure to local government payment collection risk; (3) relatively high debt leverage; and (4) moderate credit metrics.

The stable outlook on Kangda’s rating reflects our expectation that the Company’s business operations and financial profile will maintain stable, and the Company will maintain relatively low capital expenditure over the next 12-18 months.

Rating Drivers

- Stable business profile with long-term concession periods and low concentration risk
- Steady increasing volume and capacity but expect to decline through project disposal
- Exposure to local government payment collection risks
- Fragmented sewage treatment industry dominated by SOEs
- Synergies from integration with China Water Affairs Group (“CWA”)
- Stable revenue growth and profitability
- Relatively high debt leverage with moderate debt repayment ability

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Company’s market position significantly strengthens with a material increase in treatment capacity and volume; or (2) the Company’s financial profile improves on a sustained basis, such as adjusted EBITDA interest coverage increased to over 5.0x, and/or adjusted FFO/Total debt ratio increased to over 15%.

What could downgrade the rating?

The rating could be downgraded if (1) the Company’s market position significantly weakened with a material decrease in treatment capacity and volume; or (2) the Company’s financial profile deteriorates over an extended period, such as adjusted EBITDA interest coverage decreased to less than 2.5x, and/or Total capitalization ratio increased to over 60%.

Key Indicators

	2023FY	2024FY	2025FY
Total Assets (RMB billion)	19.2	19.2	18.7
Total Equity (RMB billion)	5.9	6.0	6.3
Total Revenue (RMB billion)	2.2	2.3	2.4
Net Profits (RMB billion)	0.1	0.2	0.2
EBIT Margin (%)	37.2	37.3	37.4
Return on Assets (%)	4.3	4.4	4.8
Total Debt/Total Capital (%)	62.9	61.5	59.7
Total Debt/EBITDA (x)	8.4	7.4	6.9
EBITDA/Interest (x)	2.0	2.4	3.0
FFO/Total debt (%)	6.8	8.3	9.6

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

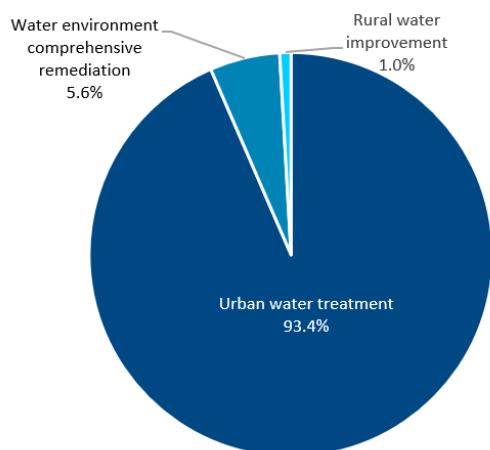
Source: Company data, CCXAP research

Corporate Profile

Founded in 1996, Kangda is a comprehensive urban environmental management service provider focusing on the investment, operation and construction of sewage treatment facilities. Kangda is among the largest private-sector participants in China’s sewage treatment industry, and is listed on the main board of the Hong Kong Stock Exchange (Stock Code: 6136.HK) in 2014. In April 2019, CWA acquired approximately 29.52% stake in Kangda; CWA subscribed for exchangeable bonds in 2020, representing 16.93% of the issued share capital of

Kangda; in July 2025, Mr. Duan Chuanliang (Founder and Chairman of the Board of CWA), as an exchangeable bondholder, exercised his exchange rights against Kangda for approximately 547 million shares, representing 25.55% of the total equities of Kangda. As of 31 December 2025, Mr. Duan Chuanliang held 37.21% of the equity shares and CWA held 27.41%, while the remaining shares were held by public shareholders and the directors of Kangda.

Exhibit 1. Revenue structure in 2025



Source: Company data, CCXAP research

Rating Considerations

Business Profile

Stable business profile with long-term concession periods and low concentration risk

Kangda is primarily engaged in urban water treatment, mainly in wastewater treatment. The Company's business profile is underpinned by a concession-based model that secures its strong market position in the respective regions, eliminating direct competition for sewage flows once concessions are awarded. In addition, the Company's projects are geographically diversified, with low concentration risk. We believe the Company has a stable business profile given the long-term concession arrangements and diversified project portfolio.

As of 31 December 2025, the Company had entered into a total of 106 service concession arrangements projects, including 100 wastewater treatment plants, 1 water distribution plant, 3 sludge treatment plants and 2 reclaimed water treatment plants. The majority of projects are structured under BOT, TOT, PPP, or BOO frameworks, with typical concession periods of 25–30 years. The current project portfolio retains a relatively long remaining concession period. The weighted average remaining concession life is approximately 17 years, and these long-term concessions ensure the stability and predictability of future cash flows.

The concession agreements include a guaranteed minimum treatment volume, under which the local government pays treatment fees based on such minimum volume (generally starting at 70% of the designed capacity). In addition, the contracts also incorporate a tariff adjustment mechanism linked to labor, energy, raw materials and chemical costs. The Company has successfully implemented multiple rounds of tariff increases in recent years, resulting in a continuous rise in its average wastewater treatment tariff. From 2015 to 2025, the Company's average wastewater treatment tariff achieved a compound annual growth rate (CAGR) of approximately 2%. We believe these arrangements safeguard the stability of the Company's business profile.

Moreover, the Company's projects are geographically diversified across 16 provinces and 44 cities, focusing on third- and fourth-tier cities in China. The three provinces with the highest capacities are Shandong, Henan, Heilongjiang, which accounting for 28.9%, 25.2% and 10.3% of the Company's total daily capacity, respectively. The Company's geographically diversified portfolio can help mitigate certain concentration risk.

Steady increasing capacity but expect to decline through project disposal

Kangda has demonstrated stable growth in both treatment capacity and actual treatment volume over the past several years. As of 31 December 2025, the Company's total designed water treatment capacity and in-operation sewage treatment capacity reaching 4.1 million and 4.0 million ton per day, respectively; while its water treatment volume grew in line with capacity additions and utilization improvements, reaching 1.2 billion ton per day. This growth trajectory reflects successful concession acquisitions and operational ramp-ups in existing assets.

Exhibit 2. Continuous growth in capacity

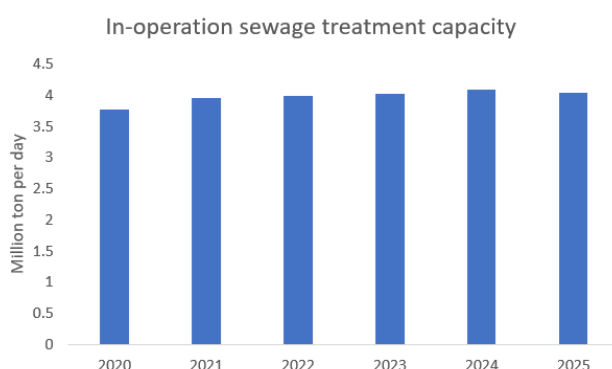
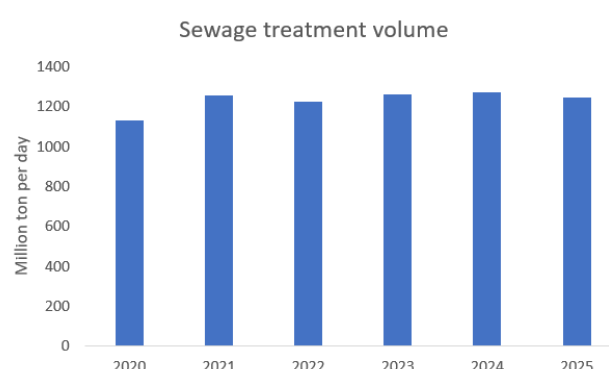


Exhibit 3. Increasing volume of sewage treatment



Source: Company data, CCXAP research

However, going forward, Kangda's water treatment capacity and volumes are expected to decline modestly due to the ongoing disposal of underperforming assets initiated in recent years. Kangda has adjusted its strategy in recent years by proactively divesting heavy-asset projects, which facing collection difficulties and high operating costs. From November 2023 to January 2026, the Company has announced 5 major project disposals, which are projected to generate approximately RMB500.0 million in cash proceeds. Debt connected with these projects are also deconsolidated from Company's balance sheet. Moreover, the Company is currently in negotiations regarding the disposal of several projects. It is expected that the disposal process will be gradually completed during the 2026–2027 period. As a result, Kangda's treatment capacity and actual sewage treatment volume may further decline. However, with the increase in sewage treatment tariff prices and capacity utilization rates, the impact on the Company's overall cashflow is expected to be partially offset.

Exposure to local government payment collection risks

Kangda's exposure to local government collection risks stems from its reliance on government-funded payments under concession arrangements. The treatment fees are first collected by water supply company on behalf of the local government and then handed over, after which the local government makes payments to the wastewater treatment company. In recent years, delayed payments in some regions have led to a lengthening of the collection cycle. These long-term receivables reflect the typical BOT/TOT payment profile, where local governments settle tariffs on a periodic basis rather than through immediate end-user collections. In general, this model faces higher collection risks compared with retail-oriented water supply models. As of 31 December 2025, trade receivables amounted to RMB3.0 billion, which accounted for 16% of its total assets. The payment

collection cycle is primarily affected by the local government fiscal strengths. If the local governments face fiscal pressure and weakened payment capacity, the collection cycle of the project may be correspondingly prolonged. Nevertheless, the Company maintains a geographically diversified portfolio, which effectively reduces concentration risk and collection risk associated with any single local government.

Kangda has also proactively implemented various solutions for accounts receivable collection, including the disposal of underperforming assets, recovery of water treatment fees through government debt restructuring programs, and the transfer of certain government receivables to local suppliers to offset trade payables. As a result, the Company's wastewater treatment fee turnover days decreased from 422 days in 2024 to 390 days in 2025, showing a slight improvement.

Fragmented sewage treatment industry dominated by SOEs

China's sewage treatment industry features a highly fragmented market structure dominated by mainly SOEs or local government financing vehicles (LGFVs) owned by regional and local governments. This fragmentation limits pricing power and intensifies competition for new concessions and expansions, presenting a credit challenge for Kangda. Besides, supported by strong government backgrounds, local SOEs and LGFVs are more likely to obtain policy preferences and local support in projects tendering. As a result, the Company's bargaining power in project bidding could be weaker than that of major state-owned competitors (such as Beijing Enterprise Water Group Limited and Beijing Capital Eco-Environment Protection Group Co., Ltd.), amid intensified market competition. In addition, the Company has a relatively modest business scale compared with those large state-owned competitors, which result in vulnerability under adverse market conditions. Nevertheless, such vulnerability is partially offset by its low-risk business profile. Moreover, in recent years, the Chinese government has strongly supported private wastewater treatment enterprises by easing market access, encouraging participation in PPP and franchising projects, and providing financial support.

Synergies from integration with CWA

Following the 2024–2025 exchangeable bonds exercise and the subsequent mandatory general offer, Kangda has become more deeply integrated into CWA. The experienced professionals of CWA can support the reduction of sewage operation costs and the acceleration of underperforming asset disposals. Furthermore, CWA's established government relationships can facilitate smoother tariff adjustments, more efficient collection of concession receivables, and stronger negotiation outcomes with municipalities. Overall, the integration has improved the Company's operational efficiency and accelerated deleveraging. In addition, the sharing of fund-raising network will also help reduce finance costs.

Financial Profile

Stable revenue growth and profitability

Benefited by stable sewage treatment volume and increasing average wastewater treatment tariff, the Company's total revenue slightly increased from RMB2.2 billion in 2023 to RMB2.4 billion in 2025 over the past three years. The Company's net profit also increased from RMB130.2 million to RMB243.5 million over the same period.

The Company's profitability remains stable, which is in line with the Company's stable and low risk business profile. From 2023-2025, its adjusted EBIT margin maintained at around 37.2% to 37.4%, while its return on average assets also ranged from 4.3% to 4.8%, reflecting its stable profitability. The Company has been actively implementing cost-reduction initiatives in recent years, including enhanced budget control, electricity cost

savings, chemical cost and quality management, and maintenance expense oversight. As a result, the Company's SG&A decreased from RMB284.1 million in 2023 to RMB247.7 million in 2025. Moreover, the finance costs also decreased from RMB578.7 million to RMB446.8 million over the same period, mainly due to the decrease in average borrowing rate. However, the Company's other expenses increased to 137.5 million as of 31 December 2025, mainly due to the losses on disposal of subsidiaries to facilitate capital recovery, exerts a growing erosive effect on overall profitability. With the ongoing project disposal, we expect the Company's revenue will slightly decrease but remain at good profitability over the next 12 to 18 months.

Relatively high debt leverage with moderate debt repayment ability

Although Kangda actively reduces its debt amount through project disposal, it still demonstrates a relatively high debt leverage. The Company's total debt decreased from RMB9.9 billion at end-2023 to RMB9.3 billion at end-2025; while its total capitalization ratio decreased from 62.9% to 59.7% over the same period, maintained at a relatively high level. However, the Company still has a large reliance on short-term debt, with the short-term debt ratio of 36.5% and cash to short term debt ratio of only 0.1x at end-2025.

Given the relatively large debt burden, the Company's debt repayment ability is moderate. The total debt/adjusted EBITDA ratio decreased to 6.9x in 2025 from 8.4x in 2023; its adjusted EBITDA/interest coverage ratio also increased to 3.0x from 2.0x over the same period. Moreover, the Company's adjusted FFO/total debt ratio increased from 6.8% in 2023 to 9.6% in 2025.

Given the ongoing disposal of underperforming assets, we expect the Company's debt leverage will continue to decline over the next 12 to 18 months. Furthermore, the Company is gradually shifting to an asset-light operating model to reduce future capital investment. We project that the Company's capital expenditure amount will maintained around RMB300.0 million for the next 12 months.

The Company mainly relies on bank borrowings for external funding. As of 31 December 2025, it had bank credit facilities of RMB9.1 billion, with an undrawn amount of RMB1.6 billion. Benefited by the decreasing of China's domestic loan interest rate, the average borrowing rate of the Company declined noticeably, from around 6.0% in 2023 to 4.7% in 2025. In addition, the Company also has access to the equity financing channel as a listed company.

ESG Considerations

Kangda's sewage treatment operations carry certain environmental risks, such as potential failures in compliant with local regulations. The Company has established comprehensive targets across water resource management, energy utilization, waste reduction, and greenhouse gas emissions. Initiatives such as AI intelligent control systems for precise chemical dosing and energy-efficient upgrades have reduced consumption intensity and supported lower-carbon operations.

The Company is also exposed to social risks. Affordability and responsible production on its sewage treatment service are highly linked to regulations and government policy. A reliable sewage treatment can protect public health and supports urban living standards.

Following the 2024–2025 exchangeable bonds exercise and mandatory general offer, Mr. Duan Chuanliang and CWA have strengthened the control of the Company. Compliance management, risk early-warning systems, and transparent reporting under HKEX ESG guidelines demonstrate solid internal controls.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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