

Credit Opinion

11 June 2024

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

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Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd.

Surveillance credit rating report

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

Summary

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.

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.

Rating Drivers

- Important strategic position in Gaoyao District and Jinli High-tech Zone
- High sustainability of infrastructure construction business
- Exposure to commercial activities expected to be reduced
- Solid track record of receiving governmental support
- Increasing debt burden and moderate asset liquidity
- Improved access to funding, but with high reliance on non-standard financing
- Medium contingent liability risk from external debt guarantees

Rating Sensitivities

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.

Key Indicators

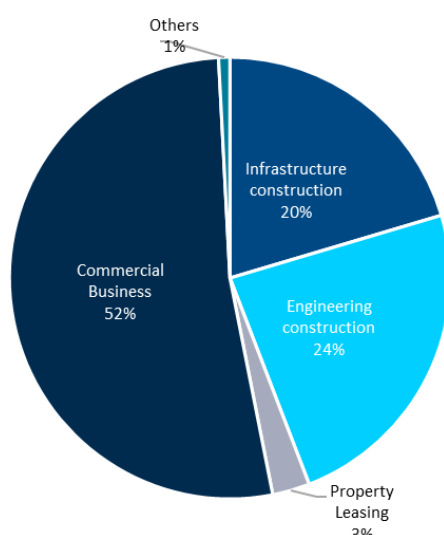
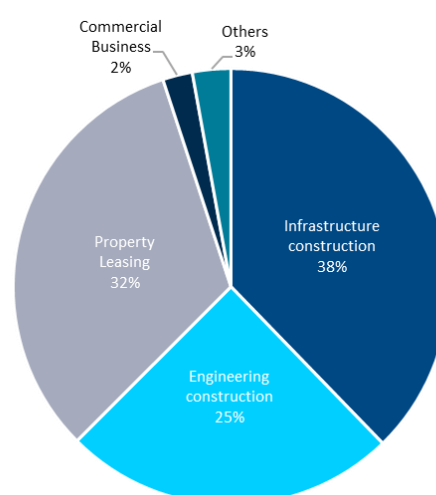
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	12.8	17.0	21.9
Total Equity (RMB billion)	6.8	6.9	8.9
Total Revenue (RMB billion)	2.1	1.6	2.2
Total Debt/Total Capital (%)	41.7	53.7	54.1

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

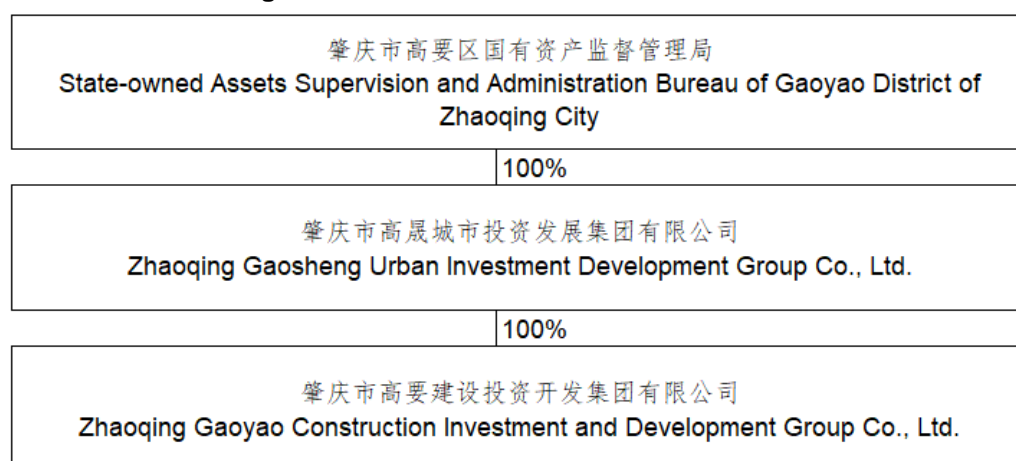
Source: Company data, CCXAP research

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.

Exhibit 1. GJID's revenue structure in 2023**Exhibit 2. GJID's gross profit structure in 2023**

Source: Company information, CCXAP research

Exhibit 3. Shareholding Chart as of 31 December 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Gaoyao District Government has strong capacity to provide support, given its leading economic status in Zhaoqing City, with great economic potential and a stable fiscal profile.

Guangdong Province is one of the most economically developed provinces in China, and its comprehensive economic strength outperforms other provinces. Thanks to industrial production and consumption recovery after the epidemic, the gross regional product ("GRP") of Guangdong Province achieved RMB13.6 trillion in 2023, ranking first among all provinces in China, with a year-on-year ("YoY") increase of 4.8%. In 2023, its general budgetary revenue reached RMB1.4 trillion, ranking first in China for more than 30 consecutive years.

Located in the western part of Guangdong Province, Zhaoqing City is the largest inland city in the Guangdong Hong Kong-Macao Greater Bay Area ("Greater Bay Area"). Zhaoqing City has a well-developed transportation network, forming a comprehensive transportation hub with "one intercity railway, two express links, seven

expressways, and one golden waterway". In recent years, Zhaoqing City has developed three industrial clusters valued over RMB100 billion, namely new energy vehicles, advanced equipment manufacturing, and energy conservation and environmental protection. Benefiting from the ongoing development of agriculture and manufacturing industries, the GRP of Zhaoqing City increased by 3.7% YoY to RMB279.3 billion in 2023, ranking 12th among 21 cities in Guangdong Province. Zhaoqing Municipal Government's fiscal strength also improved along with the economic growth, its general budgetary revenue had increased from RMB14.6 billion in 2021 to RMB17.7 billion in 2023, of which tax income accounted for 50.6% on average during the period. However, the fiscal balance of Zhaoqing City is still weak, averaging at 39.9% from 2021 to 2023. Zhaoqing City's local government had an increasing debt burden as its outstanding debt balance was RMB113.3 billion at end-2023 compared to RMB99.6 billion at end-2022, accounting for 40.6% of GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Zhaoqing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	265.0	270.5	279.3
GRP Growth (%)	10.5	1.1	3.7
General Budgetary Revenue (RMB billion)	14.7	16.1	17.7
General Budgetary Expenditure (RMB billion)	39.7	39.7	41.8
Local Government Debt (RMB billion)	87.7	99.6	113.3

Source: Statistics Bureau of Zhaoqing City, CCXAP research

Gaoyao District is located in the central part of Guangdong Province, belonging to the Pearl River Delta, Guangzhou-Foshan-Zhaoqing Economic Circle and Zhaoqing Economic Development Center. Gaoyao District has a relatively good investment potential, ranking 39th by investment potential among Top 100 districts in China according to the research results of High-quality Development Index of China's Small- and Medium-sized Cities in 2023. It is also one of the top five counties in terms of comprehensive economic development counties in Guangdong. Gaoyao District has formed an industrial layout with auto parts and hardware processing industries as the core industries, supplemented by advanced equipment manufacturing, chemical industry and health and leisure industries. With the good location advantages and industrial layout, Gaoyao District's economic strength improved steadily with the GRP increased 4.5% YoY to RMB56.2 billion in 2023, ranking first among all districts in Zhaoqing City. Due to a substantially increase in non-tax revenue generated from sale of mineral resources, Gaoyao District Government's general budgetary revenue grew rapidly to RMB3.4 billion in 2023, representing a 20.3% YoY growth rate. Moreover, its fiscal balance ratio was at an average of 52.2% from 2021 to 2023, which was at a modest level. Gaoyao District Government has a manageable debt profile as the outstanding debt balance of Gaoyao District Government was RMB11.1 billion at end-2023, accounting for 19.7% of GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Gaoyao District

	2021FY	2022FY	2023FY
GRP (RMB billion)	50.7	54.2	56.2
GRP Growth (%)	11.5	3.5	4.5
General Budgetary Revenue (RMB billion)	2.2	2.8	3.4
General Budgetary Expenditure (RMB billion)	5.2	5.4	5.5
Local Government Debt (RMB billion)	7.6	8.9	11.1

Source: Statistics Bureau of Gaoyao District, CCXAP research

Located in the east of Gaoyao District, Zhaoqing Jinli High-tech Industrial Development Zone ("Jinli High-tech Zone") was officially approved by the provincial government as a provincial level high-tech industrial

development zone in December 2020. Jinli Town, where Jinli High-tech Zone is located, is one of the areas with the best industrial foundation and the fastest development in Zhaoqing City. It has three major industrial clusters including auto parts, hardware, and chemical industry. With a total area of 162 square kilometers and a population of about 200,000, Jinli High-tech Zone has a transportation network that extends in all directions. According to CCIT Town Economy Research Center, Jinli Town ranked 382nd among the top 500 town in economy in 2024, which is the only town in Zhaoqing to be included in the list. With the rapid development of the Greater Bay Area, we expect the economic and fiscal strength of Zhaoqing City and Gaoyao District to be further enhanced through cooperation with major cities in the Greater Bay Area.

Government's Willingness to Provide Support

Important strategic position in Gaoyao District and Jinli High-tech Zone

Apart from the Company, there are other three main LIIFCs in Gaoyao District, which are Zhaoqing Gaosheng Urban Investment and Development Group Co., Ltd ("GSUI"), Zhaoqing Gaoyao District State-owned Assets Operation Co., Ltd. ("GSAO") and Zhaoqing Gaoyao District Hengyao Investment Development Co., Ltd ("GYHY"), each with clear positioning in the infrastructure development of Gaoyao City. GSUI is the largest and the most important infrastructure construction and state-owned asset operation entity in the region, owning other three LIIFCs in Gaoyao District. GJID is primarily responsible for the infrastructure construction in the new urban area of Gaoyao District and Jinli High-tech Zone, while 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. GYHY is mainly responsible for road and transportation infrastructure construction and other commercial business including hardware commodity trading and state-owned asset leasing. 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 demolition 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 subsidiaries into 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.

Entrusted by Gaoyao District Finance Bureau or relevant governmental agencies, the Company undertakes infrastructure construction projects under agency construction model through fiscal appropriation funds and self-raised funds, with a markup of 20% of the project cost incurred. As of 31 December 2023, the Company had completed 4 key infrastructure construction projects with a total investment of around RMB1.6 billion and received project repayment of RMB1.5 billion. Meanwhile, the Company had 20 infrastructure construction projects under construction with a total investment of around RMB15.8 billion and an uninvested amount of RMB13.9 billion. Furthermore, the Company had 5 projects under planning with an outstanding investment amount of RMB4.5 billion over the next three years. These projects mainly include infrastructure construction, urban renewal, roads, schools and environmental improvement projects. Although the initial investment amount is relatively large, funds from special government bonds can alleviate part of the capital pressure.

In addition, GJID also involves in land transfer business as it owns sufficient land resources obtained via public

auction market. As of 31 December 2023, the Company owned land use rights with a total area of about 0.9 million square meters and book value of RMB4.6 billion. However, the income from land transfer business is unstable as it is highly subject to the local land markets and reserve planning policy of the local government. In 2023, the Company did not realize land transfer income as no land was purchased, demonstrating uncertainty of this business segment.

Exposure to commercial activities expected to be reduced

GJID also has participated in commercial activities such as trading, engineering construction, property leasing, human resource, catering, advertising services businesses and self-operated project construction. At present, we consider the Company's exposure to commercial businesses to be medium, as its market-driven businesses accounted for around 25% of its total assets at end-2023. However, the Company's exposure to commercial businesses is expected to be further reduced because of its subsidiaries for engineering construction, property leasing, human resource and catering businesses transferred out in the progress of restructuring of state-owned enterprises in Gaoyao District in March 2024.

GJID's trading business expanded rapidly in recent years, becoming the largest income source of the Company. The Company is primarily involved in sales of electrolytic copper under demand-driven model and has been engaged in sale of food since December 2022, providing food ingredients delivery service through central kitchen covering primary and secondary schools, kindergartens, and government canteens in Gaoyao District. In 2023, the revenue from trading business amounted to RMB1.2 billion, accounting for 52.3% of its total revenue. However, affected by intensified market competition and relatively large investments in the early stages of sale of food business, the profitability of this business was low reflected by the business's gross profit margin of less than 1% in 2023. Meanwhile, the business is subject to high concentration risks. In 2023, the procurement from the top five suppliers accounted for 95.0% of the total procurement and the sales from the top five customers accounted for 62.2% of the total sales.

The property leasing business mainly involves leasing of industrial buildings and farmer's market. In 2023, benefiting from rental income of new added forest land and forest use rights, the Company's property leasing income grew rapidly to RMB60.5 million, with a 69.5% YoY growth rate. However, the Company's subsidiary, Zhaoqing Gaoyao District Gaoyu Property Management Co., Ltd., was transferred out in the progress of restructuring of state-owned enterprises in Gaoyao District in March 2024, which contributed 41.2% of Company's property leasing income in 2023. We consider the revenue from property leasing business will reduce greatly this year.

GJID undertakes engineering construction projects through government entrustment or bidding in public market, which are mainly funded by fiscal appropriation. In 2023, the Company had 589 engineering construction contracts with a contract value of RMB810 million and received engineering funds of RMB624 million. In virtue of enriching engineering qualifications, the revenue from the engineering construction business significantly increased from RMB127.0 million in 2022 to RMB525.7 million in 2023, which accounted for 23.7% of its total revenue. However, the engineering construction sector was transferred out in the progress of restructuring of state-owned enterprises in Gaoyao District in March 2024, which could negatively impact the Company's income this year.

Meanwhile, the Company also engaged in self-operated projects including cuisine variety street, green water plant, charging piles and pre-prepared food industrial park, which aims to promote local industrial development and improve people's livelihood. After these projects are completed, the Company generates profits from project operations for fund balance. As of the end of 2023, the Company had 5 self-operated projects under construction,

with a total planned investment of RMB6.0 billion and an outstanding amount of RMB5.7 billion, indicating certain investment pressure. Although these self-operated projects could be a good supplement to the Company's revenue, they may bring certain operational uncertainties and financial risks to this business since these self-construction projects are highly subject to local industrial development and the progress of investment attraction.

The Company also provides human resource, catering, and advertising services in Gaoyao District. However, their relatively small operating scale limits their contribution to the Company's revenue and profit.

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. In 2021, Gaoyao SASAB injected forest rights of RMB1.3 billion and equity interests of several state-owned enterprises into the Company in order to replace some of its receivables. In 2023, the Company's debt rights of RMB279.2 million were converted into capital reserves, and 100% equity interests of Zhaoqing Gaoyao District Gaoji Urban Development Co., Ltd. were transferred to the Company on a gratis base, increasing capital reserves by RMB1.6 billion, which greatly support its future investments and debt repayments. Moreover, the government has also provided support through special funds and subsidies to enhance the company's financial flexibility. From 2021 to 2023, the Company received government subsidies of about RMB1.1 billion. Given GJID's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

Increasing debt burden

GJID shows a rising debt burden owing to its expansion in the construction of public-policy projects and investment in commercial activities over the past few years. 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%. Meanwhile, the Company has a relatively high short-term debt burden, with the short-term debt accounting for 50.1% of the total debt, and low cash to short-term debt ratio of 0.2x. 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.

Moderate asset liquidity

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. The inventories are comprised of land use rights, development costs for the construction projects, and forest rights assets, while receivables are mainly payments owed by entrusting parties of the construction projects, both of which are considered low liquidity. In addition, as of 31 December 2023, the Company's restricted assets amounted to RMB3.0 billion, representing around 13.8% of its total assets and consisting mainly of investment real estates and inventories. 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.

Improved access to funding, but with high reliance on non-standard financing

GJID has access to various sources of funding, including bank loans, onshore bond financing and non-standard financing. At the end of 2023, around 32.1% of the Company's debt financing was provided by domestic banks,

with total credit facilities of RMB9.6 billion. Although the Company had available credit facilities of RMB4.0 billion, 82% of them were made up of project loans, indicating a tight standby liquidity. The Company is also able to access the onshore debt market. From October 2021 to May 2024, it raised RMB3.0 billion in total via issuance of four private corporate bonds, with average coupon rate of about 4%. However, 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

GJID has significant external guarantee exposures related to local SOEs, which could potentially increase its repayment obligations. 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.

ESG Considerations

GJID faces environmental risks because it has undertaken infrastructure development 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.

GJID bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Gaoyao District. 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.

GJID's governance considerations are also material as the Company is subject to oversight by the Gaoyao District Government 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 [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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