

CCXAP assigns first-time long-term credit rating of BBB_g- to Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd., with stable outlook

Hong Kong, 16 May 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating of Zhaoqing Gaoyao Jiantou Investment and Development Group Co., Ltd. (“ZGJID” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of ZGJID is underpinned by the Company’s (1) important position in infrastructure construction in Gaoyao District; and (2) dominant position as the sole infrastructure construction entity in Jinli High-tech Zone. However, the rating is constrained by the Company’s (1) high capital expenditure pressure and increasing debt burden; and (2) moderate asset quality and modest liquidity profile.

The rating also incorporates our expectation that ZGJID is likely to receive support from the Gaoyao Government when needed, given the Company’s (1) important strategic role in Gaoyao District; (2) ultimate control by the local government; and (3) good track record of receiving local government support.

Corporate Profile

Founded in 2017, ZGJID is an important state-owned financing and investment platform for public infrastructure construction in Gaoyao District, Zhaoqing City. It primarily engages in infrastructure construction and property leasing businesses. The Company is also engaged in some commercial businesses, such as sales of building materials and catering. As of 31 December 2021, the State-owned Assets Supervision and Administration Bureau of Gaoyao District of Zhaoqing City (“Gaoyao SASAB”) was the sole shareholder of ZGJID, holding 100% of the Company’s shares. As of the same date, the registered capital of the Company was RMB276 million.

Rating Rationale

Credit Strengths

High likelihood of receiving support from the local government when needed. As an important infrastructure construction entity in Gaoyao District and the sole infrastructure construction entity in Jinli High-tech Zone, ZGJID actively participates in various infrastructure projects, effectively facilitating the urbanization and regional economic development of Gaoyao District. ZGJID is directly owned by Gaoyao SASAB and it continued to receive financial subsidies from the local government.

Important position in infrastructure construction in Gaoyao District and the sole infrastructure construction entity in Jinli High-tech Zone. As an important infrastructure construction entity in Gaoyao District and Jinli High-tech Zone, ZGJID has undertaken various major infrastructure construction projects in Gaoyao District, including agency construction projects and engineering construction projects. Given that the Company has a large number of

construction projects in the pipeline, we expect its public infrastructure construction business to be highly sustainable, which will support the Company's future income growth.

Credit Challenges

High capital expenditure pressure and increasing debt burden. ZGJID has a large number of projects under construction or planning, resulting in high capital expenditure pressure. As of 31 December 2021, the Company had a total of 27 major projects under construction, with a total invested amount of RMB2.6 billion. The Company mainly funded the construction projects through external financing, resulting in increasing debt burden. The Company's total debt increased from RMB0.1 billion at end-2019 to RMB4.8 billion at end-2021, with a total capitalization ratio of 41.7% as of the same date.

Moderate asset quality. ZGJID's asset quality is considered moderate as reflected by its moderate asset profitability and asset liquidity. The Company's asset profitability is reflected by its property leasing business which provides a steady but small amount of rental income. The Company's asset liquidity is constrained by a large amount of inventories and receivables, accounting for 75.7% of total assets at end-2021.

Modest liquidity profile. ZGJID's standalone liquidity profile is modest. As of 31 December 2021, the Company had monetary funds of RMB950.6 million, which was unable to cover its short-term debt of RMB1.2 billion. We expect the Company will rely on external borrowings to meet its liquidity needs.

Rating Outlook

The stable outlook on ZGJID'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 economic and fiscal strengths of Zhaoqing City and Gaoyao District improve noticeably; (2) the likelihood of government support provided to ZGJID increases; and (3) the Company's stand-alone credit profile improves significantly, such as improvements in business sustainability and operating profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal strengths of Zhaoqing City and Gaoyao District deteriorate significantly; (2) the likelihood of government support provided to ZGJID declines; or (3) the Company's stand-alone credit profile weakens significantly, such as deterioration in its financing ability and liquidity position.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).



Regulatory Disclosures

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