

## Credit Opinion

18 August 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable

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## Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co., Ltd. (“GIID”) is underpinned by the Company’s (1) status as the most important industrial investment platform in Gaoyao District; (2) good market position and competitiveness in engineering construction and product sales in Gaoyao District; and (3) diversified business mix which provides supplementary sources of revenue.

However, the rating is constrained by the Company’s (1) relatively weak profitability with a relatively high reliance on non-recurring gains; (2) relatively fast debt growth and high short-term debt repayment pressure; and (3) modest debt servicing capability with moderate access to funding.

The rating also reflects a high likelihood of government support from the Gaoyao District Government when needed, which is based on the Company’s (1) direct ownership and ultimate control by the Gaoyao District Government; (2) significance in promoting the industrial development and integration of state-owned assets in Gaoyao District; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

The stable outlook on GIID’s rating reflects our expectation that the Company will continue to receive solid support from the Gaoyao District Government. We also expect the Company to maintain its strategic role as the important industrial development platform in Gaoyao District over the next 12 to 18 months.

## Rating Drivers

- Most important industrial investment platform in Gaoyao District, but with relatively high capital pressure
- Good market position in engineering construction and product sales in Gaoyao District
- Strong regional competitiveness in product sales business
- Diversified business mix which provides supplementary sources of revenue
- Relatively weak profitability with a relatively high reliance on non-recurring gains
- Relatively fast debt growth and high short-term debt repayment pressure
- Modest debt servicing capability with moderate access to funding
- High likelihood of support from the Gaoyao District Government

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Gaoyao District Government increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's stand-alone credit profile improves significantly, such as stronger market position and improvement in profitability.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Gaoyao District Government decreases; (2) the performance of the Company's investment portfolio deteriorates; or (3) the Company shows weakened access to funding and eroded liquidity profile.

## Key Indicators

	2022FY	2023FY	2024FY
Total Assets (RMB billion)	8.7	9.3	12.1
Total Equity (RMB billion)	5.3	6.3	6.4
Total Revenue (RMB billion)	0.5	0.8	1.0
Net Profits (RMB billion)	0.1	0.1	0.1
EBIT Margin (%)	50.1	13.0	16.7
Return on Assets (%)	1.7	0.6	0.7
Total Debt/Total Capital (%)	29.4	21.6	40.0
Total Debt/EBITDA (x)	9.1	13.3	19.3
EBITDA/Interest (x)	12.4	3.6	3.2
FFO/Total debt (%)	3.2	0.7	3.2

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

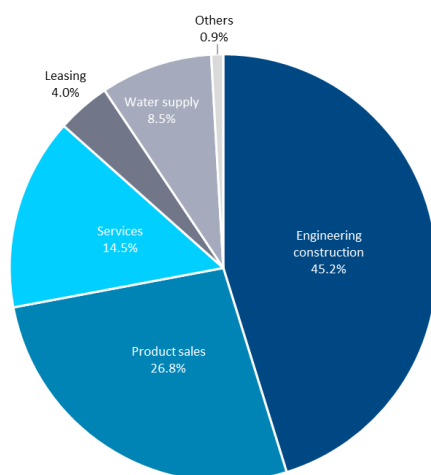
Source: Company data, CCXAP research

## Corporate Profile

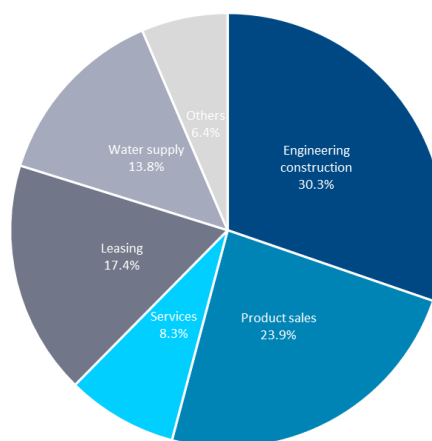
Established in 2000, formerly known as Gaoyao Gaojian State-owned Assets Management Co., Ltd., GIID is positioned as an important industrial investment and state-owned assets operation platform in Gaoyao District and mainly engages in industrial investment, engineering construction, product sales and human services

businesses. As of 31 December 2024, GIID was wholly owned by the Zhaoqing Gaoyao District State-owned Assets Supervision and Administration Bureau (“Gaoyao SASAB”), with a registered capital of RMB300 million.

**Exhibit 1. Revenue structure in 2024**



**Exhibit 2. Gross profit structure in 2024**



Source: Company information, CCXAP research

## Rating Considerations

### Business Profile

#### **Most important industrial investment platform in Gaoyao District, but with relatively high capital pressure**

As the most important industrial investment platform in Gaoyao District, GIID is of great significance in promoting the development of strategic emerging industries in Gaoyao District. The Company engages in industrial investment business by ways of equity investment and project investment and its investment portfolio is aligned with the government policies and economic development, focusing on local advantageous industries such as new materials and metal processing and cultivating emerging industries including advanced equipment manufacturing, modern agriculture and electronic information, thereby improving regional industrial upgrading. The Company also revitalizes local high-quality resources such as mines. However, the large scale of project investment exerts relatively high capital pressure and puts certain pressure on the financing activities of the Company.

Positioned as an important industrial investment entity to promote the development of pillar industries in Gaoyao District, the Company engages in industrial investment business by ways of equity investment and projects construction. At end-2024, the Company had a diversified industrial investment portfolio as it had invested in the equity shares in 15 enterprises, with a total equity book value of RMB2.1 billion, focusing on auto parts production, engineering construction, new energy, civil explosives product sales, tobacco production and sales, gold mining and production and agricultural products industries. Benefiting from the diversification of investment targets, the Company achieved stable investment return in recent years, which amounted to RMB65.9 million, RMB62.5 million and RMB72.4 million from 2022 to 2024, respectively.

In accordance with the development plans of the local government in attracting enterprises and investments settling in Gaoyao District, the Company also participates in the industrial project development in Gaoyao District under the self-operated model with its own funds and self-raised funds. As of 31 December 2024, the

Company had 5 industrial development projects under construction, which are mainly photovoltaic projects and Gaogui duck industry chain projects, with total planned investment of RMB3.0 billion and an outstanding amount of RMB2.6 billion. Moreover, the Company establishes joint venture companies with industry-leading companies to operate these projects. The income of the Company's industrial development business mainly comes from leasing of factories and photovoltaic equipment, and investment dividends. However, the large amount of future investment of industrial development projects would bring large capital expenditure pressure to the Company.

### **Good market position in engineering construction in Gaoyao District**

GIID is a leading local E&C company in Gaoyao District, mainly in the area of water conservancy and municipal construction. The Company maintains high market recognition as it participates in most infrastructure construction projects in Gaoyao District.

GIID possesses good technical advantages in local engineering construction, and is equipped with sufficient industry qualifications, which enable it to be more competitive in the tendering market and access to quality projects. GIID demonstrates good project reserves that help support its future business growth. In 2024, the enhanced qualifications coupled with quickened business expansion drove the Company's amount of newly signed contracts rising by 241.8% YoY to RMB2.6 billion. As of 31 December 2024, the Company's unfinished contract value amounted to RMB3.7 billion. The total contract value of key projects under construction amounted to RMB442.0 million with a recognized revenue of RMB186.0 million and a received repayment of RMB74.0 million, indicating moderate repayment progress. In addition, GIID's project quality is considered high given most of the Company's clients are the local government, SOEs and local large-sized enterprises that have lesser payment risk. However, the development of engineering construction business is constrained by its geographically concentrated operation in Gaoyao District as its growth is highly associated with the local construction needs in the district and its investment planning.

### **Strong regional competitiveness in product sales business**

GIID also has maintained strong regional competitiveness in the sales business sector in Gaoyao District, supported by its regional advantages. GIID carries out sales businesses with a multiple product portfolio including gas cylinders, civil explosives, hardware products, grain and chemical reagents. We believe that the Company has good market position in the region underpinned by its franchise rights from the local government. The Company's sales revenue increased by 30.2% YoY to RMB266.4 million in 2024, primarily driven by growth in grain sales. Gross profit also saw modest expansion, mainly attributable to civil explosives and gas and cylinder sales.

The Company undertakes the function of guiding foreign trade exports under the planning of local government. It conducts foreign trade sales and generates profits by purchasing products from small hardware manufacturers in Jinli Town and applying for tax refunds, and recognizes about 1% of the export sales revenue as the company's profit income.

As the sole grain and oil reserve operator in Gaoyao District, the Company is responsible for the purchase, storage, custody, rotation sales of grain in Gaoyao District. The grain is purchased by funds provided by policy loans from the Agricultural Development Bank of China, and the loan interest is subsidized by the Gaoyao District Government. Given the business's strategic functions of stabilizing grain prices by balancing the supply and demand, and responding to major natural disasters or emergencies, the Gaoyao District Government provides continuous subsidies and loan interests to the Company. However, the profitability of the business is susceptible to the fluctuating grain prices.

The Company also engages in sales of civil explosives, including explosives, detonators, and fuses, to specific groups at prices under government guidance. The gross profit margin of this business sector is relatively high at around 30%, providing supplementary revenue and cash flow to the Company but is limited by small operating scale.

### Exhibit 3. Revenue of product sales business by products from 2022 to 2024

(RMB million, %)	2022FY		2023FY		2024FY	
	amount	percentage	amount	percentage	amount	percentage
Gas and cylinder	21.7	10.3	21.6	10.6	30.0	11.3
Civil explosives	25.2	12.0	37.2	18.2	27.8	10.5
Foreign trade sales	66.9	31.8	70.2	34.3	60.2	22.6
Grain	70.1	33.3	33.6	16.4	80.8	30.3
Meat and vegetables	14.5	6.9	23.1	11.3	32.4	12.2
Chemical reagents	9.4	4.5	13.5	6.6	26.4	9.9
Others	2.8	1.3	5.5	2.7	8.7	3.2
<b>Total</b>	<b>210.5</b>	<b>100.0</b>	<b>204.7</b>	<b>100.0</b>	<b>266.4</b>	<b>100.0</b>

Source: Company information, CCXAP research

### Diversified business mix which provides supplementary sources of revenue

In addition to engineering construction and product sales businesses, the Company has diversified its business segments into leasing, services, and water supply, which is believed to mitigate revenue volatility through the synergistic operation of its multiple business segments, and is, credit-positive.

The Company conducts service business through its subsidiaries, providing security, human resources, cleaning, slaughtering, garbage removal, motor vehicle training, sightseeing car services, freight services, which accounted for 14.5% of the total revenue in 2024. The Company is also responsible for operating other businesses such as water supply and leasing services, each accounting for less than 10% of the Company's total revenue in 2024. As of 31 December 2024, the Company provided water services to 640,000 households with a daily water supply capacity of 212.6 thousand tons. The Company also owns leasable properties including factories of around 450 thousand sqm and 56 vehicles, providing supplementary income to the Company. Overall, these businesses have small contribution to the Company's overall revenue but are relatively stable.

### Financial Profile

#### Relatively weak profitability with a relatively high reliance on non-recurring gains

Benefited from the development of product sales and services businesses, GIID's total revenue increased from RMB842.3 million in 2023 to RMB990.7 million in 2024, representing a YoY growth rate of 17.6%. The engineering construction business is still the main contributor, accounting for 45.2% of total revenue in 2024, followed by product sales (26.9%), and services (14.5%). However, the Company's period expense ratio (mainly including marketing fee, management fee and finance cost) is relatively high, amounting to 14.1% on average from 2022 to 2024.

GIID's profitability is relatively weak as reflected by the weak return on assets and EBIT margin. In 2024, the Company's EBIT margin was 16.7%, while the return on assets was 0.7%. Meanwhile, there is certain uncertainties to stability of the Company's profitability as investment income and gains from fair value change made great contribution to its total profit over the past years, accounting for 62.7% and 47.8% of its total profit on average from 2022 to 2024. The investment income came from long-term equity investment in the

Company's joint venture company, Guangdong Hongtu Technology Co., Ltd., while gains from fair value change were generated by investment properties and other non-current financial assets.

### **Relatively fast debt growth and high short-term debt repayment pressure**

Due to relatively large capital expenditure on its construction development projects, GIID's total debt has been growing rapidly over past few years. At end-2024, the Company's total debt increased to RMB4.3 billion from RMB1.7 billion at end-2023. The total capitalization ratio, as measured by total debt to total capital, had also increased to 40.0% from 21.6% during the same period. The Company is exposed to high short-term debt repayment pressure as its short-term debt accounted for 38.1% of its total debt as of 31 December 2024. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.4x, indicating that its cash reserve could not fully cover the short-term debt. We expect the Company's debt burden will continue to increase, given its large capital expenditure needs for its extensive construction projects and further development of its diversified business.

### **Modest debt servicing capability with moderate access to funding**

As the Company's debt burden and financing costs increased, GIID's long-term debt servicing capability is modest. Its EBITDA interest coverage ratio descended from 3.6x in 2023 to 3.2x in 2024 and total debt/EBITDA ratio increased from 13.3% to 19.3% over the same period. Nevertheless, its FFO/total debt ratio increased from 0.7% to 3.2%, reflecting weak but improved cash flow to debt coverage capability.

Furthermore, the Company has large amount of restricted assets and non-current assets, indicating weak asset liquidity. As of 31 December 2024, the Company had pledged assets of RMB1.7 billion for loans, accounting for 13.9% of total assets and its non-current assets accounted for 68.2% of total assets, which are primarily composed of investment properties, long-term equity investments, and intangible assets.

The Company shows improving access to funding, including bank loans, onshore bond market and non-standard financing. As of 31 December 2024, the non-standard debts accounted for around 31.1% of the total debt, which would bring higher refinancing pressure to the Company. Meanwhile, the Company has certain standby liquidity. As of 31 December 2024, the Company had total credit facilities of RMB6.2 billion from diversified domestic policy banks and commercial banks, and an available amount of RMB3.5 billion. Around 33.9% of the Company's debt was provided by the debt capital market. Since 2024, the Company has further expanded its funding channels to the onshore debt capital market via issuance of three tranches of private corporate bond to raise RMB2.5 billion. Given the Company's limited available credit facilities amount and large outstanding investment amount on its construction projects, we consider the Company will continue to broaden its financing channels, such as increase its credit facilities from banks.

## **External Support**

### **High likelihood of support from the Gaoyao District Government**

We expect GIID has a high likelihood of receiving support from the Gaoyao District Government in times of need. This expectation incorporates our considerations of the Company's (1) ultimate control by the Gaoyao District Government; (2) significance in promoting the industrial development and integration of state-owned assets in Gaoyao District; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

We believe that the Gaoyao District Government has strong capacity to provide support, given its leading economic status in Zhaoqing City with an improving fiscal profile. Gaoyao District ranked 98<sup>th</sup> by comprehensive

strength 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 2024. Affected by reduced industrial output, Gaoyao District's GRP decreased by 1.1% YoY to RMB55.9 billion in 2024, ranking second among all districts in Zhaoqing City. Due to a substantial increase in non-tax revenue generated from sale of mineral resources, Gaoyao District Government's general budgetary revenue grew rapidly to RMB4.0 billion in 2024. Moreover, its fiscal balance ratio improved to 70.2% in 2024, compared with 61.3% in 2023. Gaoyao District Government has a manageable debt profile as the outstanding debt balance of Gaoyao District Government was RMB13.8 billion at end-2024, accounting for 24.6% of GRP.

Gaoyao SASAB maintains an extremely high degree of control over GIID's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to Gaoyao SASAB. Its strategy and investment align with Gaoyao District Government's policies by investing in industries, such as modern agriculture, renewable power, to promote industrial upgrading in the region.

Given its strategic and economic importance in cultivating local industries in Gaoyao District, GIID receives solid and meaningful supports from the Gaoyao District Government via assets and capital injections, subsidies and granting of franchise rights. In March 2024, the Gaoyao SASAB integrated and injected the high-quality assets of state-owned enterprises in Gaoyao District, including equities and properties, to the Company without compensation to broaden its business scope and enhance its competitiveness. Meanwhile, Gaoyao SASAB increased the Company's registered capital from RMB100.0 thousand to RMB300.0 million in March 2024. In 2024, the local government has provided subsidies of RMB21.7 million to the Company to support its operations. The local government has also provided supports to the Company in terms of prioritized high-quality project resources and franchise rights granting such as grain reserve operation rights and civil explosives sales rights.

We considered the Company's socio-political implications to be high as the Company is commissioned by the local government to play an important role in safeguarding local water and gas supply and strategic investing and operation of many major industrial upgrading projects and public projects, such as the integration of regional market-driven resources, guiding the export of foreign trade, and undertaking grain reserves in Gaoyao District.

Given its strategic position in the development of Gaoyao District, we believe that the local government will continue to provide support to the Company.

## ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. GIID assumes environmental risks for its construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

GIID is also exposed to social risks as an industrial investment entity in Gaoyao District. Demographic changes, public awareness and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company. In recent years, the Company has not experienced any major negative social events or major safety accidents, and it has a relatively sound employee incentive mechanism.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its status as a government-owned entity. We believe that it is

in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

## Rating Methodology

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



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