

Credit Opinion

18 March 2025

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

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Foshan Gaoming Construction Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Foshan Gaoming Construction Investment Group Co., Ltd., with stable outlook

Summary

The BBB_g long-term credit rating of Foshan Gaoming Construction Investment Group Co., Ltd. ("FGCI" or the "Company") reflects Gaoming District Government's (1) strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Gaoming District Government's capacity to provide support reflects its strong industrial development and good comprehensive strength, with ongoing economic growth and good fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important role in land development and tramway operation of Gaoming District; (2) good track record of receiving government support; and (3) good access to funding.

However, the rating is constrained by the Company's (1) uncertainty on the sustainability of tram operation business; (2) increasing debt burden driven by ongoing investment needs; and (3) moderate asset liquidity.

The stable outlook on FGCI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in the development of Gaoming District.

Rating Drivers

- Important role in land development and tram operation of Gaoming District, but with uncertainty on the sustainability of tram operation business
- Good track record of receiving government support
- Increasing debt burden driven by ongoing investment needs
- Moderate asset liquidity
- Good access to funding, but with relatively high proportion of bond financing

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increase in asset liquidity, or decrease in debt burden.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance, decrease in government support, or increase in debt burden.

Key Indicators

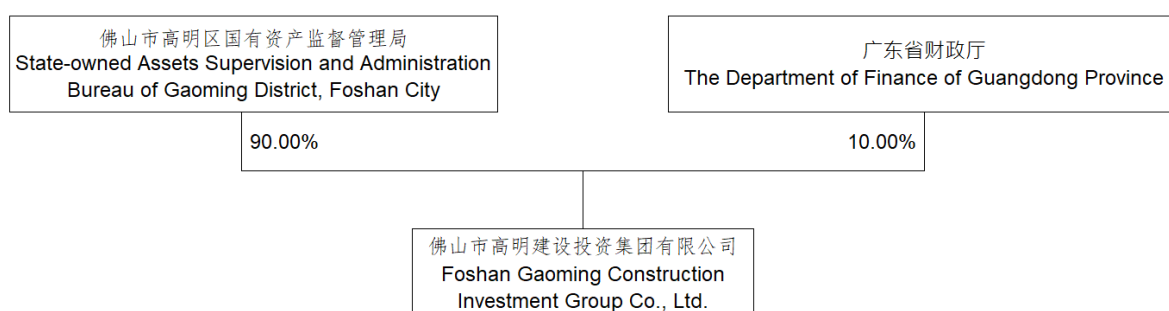
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	13.7	14.5	14.9	16.0
Total Equity (RMB billion)	4.9	5.5	5.6	5.7
Total Revenue (RMB billion)	1.8	1.3	1.3	0.7
Total Debt/Total Capital (%)	55.2	56.4	57.9	58.5

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

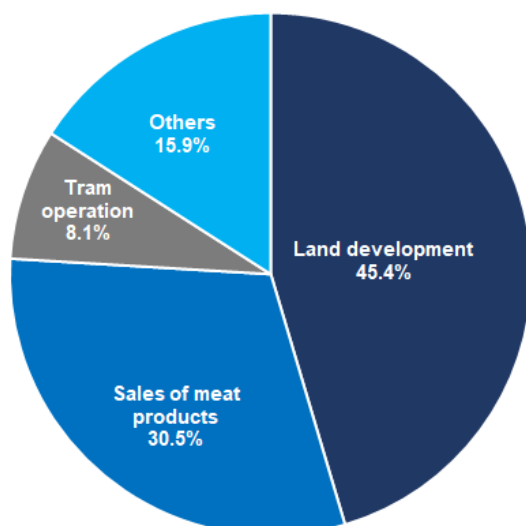
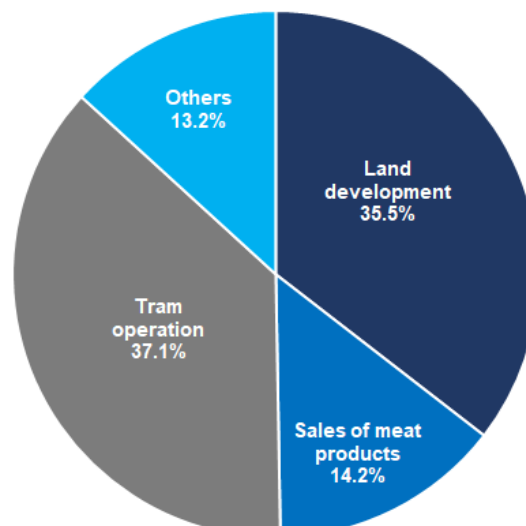
Source: Company data, CCXAP research

Corporate Profile

Established in 2011, FGCI is an important local infrastructure construction platform in Gaoming District. The Company is primarily engaged in land development and tram operation. It is also involved in other commercial activities such as sales of meat products and leasing. As of 30 September 2024, FGCI was ultimately controlled and 90% owned by the State-owned Assets Supervision and Administration Bureau of Gaoming District, Foshan City ("Gaoming District SASAB"). The Department of Finance of Guangdong Province held the remaining 10% of the Company's shares.

Exhibit 1. Shareholding chart as of 30 September 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023**Exhibit 3. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations**Government Capacity to Support**

We believe Gaoming District Government has strong capacity to provide support, given Gaoming District's strong industrial development and good comprehensive strength, with ongoing economic growth and good fiscal balance.

Guangdong Province is one of the most economically developed provinces in China, and its comprehensive economic strength outperforms other provinces. The gross regional product ("GRP") of Guangdong Province was RMB14.1 trillion in 2024, ranking first among all provinces in China for more than 30 years, with a year-on-year ("YoY") increase of 3.5%. In 2024, its general budgetary revenue reached RMB1.4 trillion.

Foshan City is located in the central part of Guangdong Province and plays a vital role in the economic development of the Guangdong-Hong Kong-Macao Greater Bay Area. Foshan City is economically dominated by manufacturing, including advantageous industries and emerging industries. Benefited from good location of

Guangdong-Hong Kong-Macao Greater Bay Area and Guangzhou-Foshan Metropolitan Area, Foshan City's GRP increased by 1.3% YoY to RMB1,336.2 billion in 2024, ranking 3rd in terms of GRP among all the cities in Guangdong Province. Its general budgetary revenue amounted to RMB 76.7 billion, reflecting a YoY decline of 4.2%. Foshan City's budgetary self-sufficient ratio rose from 78.0% in 2022 to 83.4% in 2024. Foshan City's government debt increased from RMB275.1 billion in 2023 to RMB313.7 billion in 2024, accounting for 23.5% of its GRP. Its economic performance indicators have fallen short of expectations in 2024, due to the significant adjustments in the real estate market and shifts in the automobile industry, which is closely linked to Foshan's industry.

Exhibit 4. Key Economic and Fiscal Indicators of Foshan City

	2022FY	2023FY	2024FY
GRP (RMB billion)	1,269.8	1,327.6	1,336.2
GRP Growth (%)	2.1	5.0	1.3
General Budgetary Revenue (RMB billion)	79.7	80.0	76.7
General Budgetary Expenditure (RMB billion)	102.1	98.3	92.0
Local Government Debt (RMB billion)	227.8	275.1	313.7

Source: Statistic Bureau of Foshan City, CCXAP research

Located in the western part of Foshan, Gaoming District has a strong industrial development, with pillar industries such as high-end equipment manufacturing and advanced materials. Gaoming District ranked 39th among Top 100 Districts by comprehensive strength in 2024. Its economic strength has continued to grow over the past years. In 2024, Gaoming District has achieved GRP of RMB110.7 billion, with a growing rate of 1.8%. Although it ranks the last in total economic among the five districts of Foshan City, it has the highest per capita GRP. Gaoming District's general public budget revenue and tax revenue showed a fluctuating downward trend in the past years, primarily due to retained tax refund and the tax revenue distribution policies. The district's general budgetary revenue amounted to RMB4.3 billion in 2024. Nevertheless, its fiscal self-sufficiency remains relatively strong, with the ratio of general budgetary revenue to general budgetary expenditure being 88.7% in 2024. Besides, due to the downturn of the local land market, the government fund revenue in Gaoming District has demonstrated a downward trend over the past few years, decreasing to RMB2.3 billion in 2024 from RMB4.2 billion in 2020. As of the end of 2024, the government debt balance in Gaoming District amounted to RMB17.8 billion.

Exhibit 5. Key Economic and Fiscal Indicators of Gaoming District

	2022FY	2023FY	2024FY
GRP (RMB billion)	104.5	110.0	110.7
GRP Growth (%)	3.5	6.0	1.8
General Budgetary Revenue (RMB billion)	4.4	3.9	4.3
General Budgetary Expenditure (RMB billion)	6.0	5.6	4.9
Local Government Debt (RMB billion)	13.9	16.1	17.8

Source: Statistic Bureau of Gaoming District, CCXAP research

Government Willingness to Support

Important role in land development and tram operation of Gaoming District, but with uncertainty on the sustainability of tram operation business

There are four main state-owned assets operation entities in Gaoming District, each with clear positioning in the development of the region. FGCI is the leading infrastructure construction platform in Gaoming District, with the

largest asset size among other local state-owned enterprise. The Company is also the sole entity authorized by the Gaoming District Government to undertake all land development projects in Xijiang New Town, an area situated in the eastern part of Gaoming District which is expected to become the future center of the district. Given its strong market position in land development of Gaoming District, we believe the Company will not be easily replaced in the foreseeable future.

FGCI generally conducts land development projects under the agent construction model. The Company primarily relies on its own funding and external financings to finance the land development projects. After completion, the Company will hand over the parcel of land to the Land Reserve Centre and recognizes revenue equal to a sum amount of the project cost incurred plus 50% of the land premiums after deduction of relevant taxes and fees. The Company has completed the Xijiang New Town Phase I Project, with an investment of RMB1.5 billion. As of 30 September 2024, Xijiang New Town Phase II Project was under construction, with total invested amount of RMB4.3 billion and residual transferable area of 1,071 mu. The Company is planning to conduct Phase III Project but the specific plans have yet to be finalized.

The Company has operated one tramway, namely Gaoming Modern Tram Demonstration Line, with total length of about 6.5 kilometers. Since the tramway is a demonstration line project with a strong public welfare nature, Gaoming District Government provides significant subsidies to the Company, with total estimated amount of RMB2.2 billion. Due to the impact of substitution by other means of transportation, the average daily passenger flow of this line continued to decline significantly, with only 79 daily passengers in 2023. In addition, starting from 6 August 2024, the tramway has been under inspection and maintenance, and its operation was suspended, with no clear plans for resumption.

In addition, the Company launched a grain and oil storage business since 2022. As the only district-level storage unit in Gaoming District, it manages the procurement, storage, and sales of reserve grain and oil on behalf of the district government, providing both social and economic benefits. Due to its public welfare nature, the local government provides subsidies for the Company as a support to the business.

Low exposure to commercial activities

FGCI's commercial businesses mainly include sales of meat products and leasing. We consider the Company's exposure to commercial businesses to be low, accounting for less than 15% of its total assets. However, given that the Company plans to increase investment in cultural tourism and agricultural businesses, we expect its exposure to commercial businesses will gradually increase.

In November 2020, the Company initiated its sales of meat products and obtained its first permit for a designated livestock abattoir by acquiring Foshan Gaoming District Ninghui Roulian Food Co., Ltd., which was transferred by Gaoming District SASAB. The Company's sales of meat products business involves livestock slaughtering, meat processing and sales. As the sole designated livestock abattoir in Gaoming District, the Company benefits from regional exclusivity. In 2023, the income from this business accounted for 30.5% to the Company's total revenue but with limited profit margin. However, the Company has a high concentration of suppliers (65.3% of total procurement in 2023) and customers (56.3% of total sales in 2023). Besides, the Company has been providing food ingredient distribution services for public school in Gaoming District since 2022. Due to improved business capabilities, it has gradually increased its coverage to 15 schools by the end of June 2024.

The Company is also involved in leasing and property management business, holding rental assets such as 12 agricultural markets, commercial buildings, shops, and some residential units in Gaoming District, with total area of approximately 151,500 square meters. As of 30 June 2024, the rental occupancy rate is around 70%. The

Company is currently constructing 3 major self-operated projects, with an expected investment of RMB1.0 billion and an uninvested amount of RMB773.0 million. Although there are no further planned projects, the completion and leasing of the self-operated projects are expected to result in a significant increase in future rental income.

The Company also engages in other businesses such as photovoltaic power, funeral service, labor dispatch, and sales of non-staple food. However, these businesses have limited contribution to the Company's revenue and profit.

Good track record of receiving government support

As an important infrastructure construction and state-owned asset management entity in Gaoming District, the Company has received strong support from Gaoming District Government in terms of capital injection, asset injection, and government subsidies in recent years. Benefiting from the government's capital injection, equity transfer, as well as debt-to-equity swaps, the Company's capital reserve continues to grow. In terms of capital injection, the Company received a capital injection of RMB520.0 million from its shareholders in 2018. Regarding asset injection, since 2020, the government has gratuitously transferred shares of several subsidiaries to the Company, increasing the Company's capital reserve by a total of RMB293.3 million. From 2021 to 2024Q3, it also has received support from government in subsidies totally of RMB123.1 million. Given its important position in the development of Gaoming District, we believe that the Gaoming District Government will continue to provide support to the Company.

Increasing debt burden driven by ongoing investment needs

With the continuous investment in land development and self-operated projects, the Company's debt burden has been increasing over the past three years. The Company's total debt increased from RMB6.1 billion at end-2021 to RMB8.1 billion at end-2024Q3, with total capitalization ratio of 58.5%. In addition, the Company has a relatively large short-term repayment pressure. As of 30 September 2024, its short-term debt accounted for about 51.5% of total debt and its cash to short-term debt ratio was 0.1x, indicating insufficient cash flow to service its short-term debts. With the continuous investment demands, the Company will continue to rely on external financing to meet its future capital expenditure needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months.

In addition, the Company's contingent liabilities risk is manageable. As of 30 September 2024, the Company recorded an external guarantee amount of RMB562.7 million, accounting for 9.8% of its total equity. Those guaranteed entities are the state-owned enterprises in Gaoming District, with stable operation and high likelihood of government support.

Moderate asset liquidity

FGCI's asset liquidity is moderate, which may undermine its financial flexibility. As of 30 September 2024, its assets were primarily composed of inventories and total receivables, accounting for 70.3% of total assets. The inventories mainly consist of costs from land development projects, while the total receivables are mainly unreceived payments from the local government and state-owned enterprises, both with relatively low liquidity. Nevertheless, the investment properties and tram assets can provide supplemental income for the Company.

Good access to funding, but with relatively high proportion of bond financing

FGCI has good access to funding from banks and bond market. It maintains a good relationship with diversified domestic commercial banks, with bank loans accounting for 50.5% of its total debt at end-2024Q3. As of 30

September 2024, it had obtained total credit facilities of RMB6.0 billion, with available amount of RMB690.1 million, indicating moderate standby liquidity. The Company also has access to debt capital markets. As of 30 September 2024, the Company's had outstanding onshore bonds of RMB2.6 billion at an average rate of 3.7% and offshore bonds of about USD283.0 million at an average rate of 4.0%. However, the Company is subject to certain capital market refinancing risk as bond financing accounted for 48.1% of its total debt at end-2024Q3.

ESG Considerations

FGCI assumes environmental risks through its land development projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, FGCI has played a crucial role in the social welfare of Gaoming District by involving the construction of public projects and land development projects in Gaoming District.

In terms of corporate governance, FGCI's governance considerations are also material as the Company is subject to local government oversight and 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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