中誠信亞太 CCXAP

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

Hong Kong, 18 March 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of BBB_g+ to Foshan Gaoming Construction Investment Group Co., Ltd. ("FGCI" or the "Company"), with stable outlook.

The BBB_g+ long-term credit rating of FGCI 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.

Corporate Profile

Established in 2011, FGCI is an important local infrastructure construction platform in Gaoming District. The Company is primary 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.

Rating Rationale

Credit Strengths

Important role in land development and tram operation of Gaoming District. 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. Given its strong market position in land development of Gaoming District, we believe the Company will not be easily replaced in the foreseeable future.

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. 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.

Good access to funding. 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. The Company also has access to debt capital markets. 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.

Credit Challenges

Uncertainty on the sustainability of tram operation business. The Company has operated one tramway, namely Gaoming Modern Tram Demonstration Line, with total length of about 6.5 kilometers. 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.

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%. 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

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. Nevertheless, the investment properties and tram assets can provide supplemental income for the Company

Rating Outlook

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.

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 strengths 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.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

Regulatory Disclosures

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