

CCXAP affirms Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co., Ltd.’s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 18 August 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co., Ltd. (“GIID” or the “Company”)’s long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of 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.

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.

Rating Rationale

Credit Strengths

Most important industrial investment platform in Gaoyao District. 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 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.

Good market position and competitiveness in engineering construction and product sales 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 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 high market share benefited from franchise rights by the local government.

Diversified business mix which provides supplementary sources of revenue. In addition to engineering construction and product sales businesses, the Company has also diversified into different business segments, mainly including leasing, services, and water supply, forming a well-diversified business portfolio. We believe that the Company can diversify its business risks and mitigate revenue volatility through the synergistic operation of its multiple business segments, which is credit-positive.

Credit Challenges

Relatively weak profitability with a relatively high reliance on non-recurring gains. 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 certain 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. As of 30 June 2024, the Company's total debt increased to RMB2.1 billion from RMB1.3 billion at end-2021. The Company is exposed to certain short-term debt repayment pressure as its short-term debt accounted for 44.9% (end-2021: 4.1%) of its total debt as of 30 June 2024. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.3x, indicating that its cash reserve could not fully cover the short-term debt.

Modest long-term 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. The Company shows improving access to funding, including bank loans, onshore bond market and non-standard financing.

Rating Outlook

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.

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.

Rating Methodology

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

Regulatory Disclosures

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