CCXAP assigns first-time long-term credit rating of BBB_g to Fengyang County Xiaogang Industrial Development Investment Co., Ltd., with stable outlook.

Hong Kong, 24 October 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of BBB_g to Fengyang County Xiaogang Industrial Development Investment Co., Ltd. ("FXID" or the "Company"), with stable outlook.

The BBB_g long-term credit rating of FXID is underpinned by the Company's (1) strategic role in industrial development of Fengyang County through asset leasing and industrial fund investments; and (2) regional exclusivity in water supply operation and ore sales. However, the rating is also constrained by the Company's (1) relatively small revenue scale and relatively weak profitability; (2) increasing debt burden driven by large capital expenditure needs; and (3) modest debt servicing capability with limited financial flexibility.

The rating also reflects our expectation of a very high likelihood of strong support from the Fengyang County Government and its parent company, Fengyang County Haozhou Investment Group Co., Ltd. ("FHIG"), when necessary, given the Company's (1) status as a key subsidiary of FHIG, which is ultimately owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Fengyang County ("Fengyang SASAC") and controlled by the Fengyang County Government; (2) important role in the operation of state-owned assets and investment in key industries in Fengyang County; and (3) good track record of receiving government supports.

Corporate Profile

Founded by Fengyang SASAC in 2019, FXID is an important industrial investment platform and state-owned assets operator in Fengyang County, mainly engaging in property leasing, water supply, ore sales and fund investments in the region. In September 2023, the Company's controlling shareholder changed from Fengyang SASAC to FHIG. As of 31 March 2025, FHIG holds 100.0% equity of the Company, serving as the sole shareholder, while Fengyang SASAC is the Company's ultimate owner. To meet the requirements of market-oriented transformation, the Company carried out an asset restructuring in 2023, during which infrastructure construction projects under the agent-construction model managed by its subsidiaries were transferred out of the Company. As of the same date, the registered capital of the Company was RMB2.0 billion and paid-in capital was RMB1.1 billion.

Rating Rationale

Credit Strengths

Strategic role in industrial development of Fengyang County through asset leasing and industrial fund investments. FXID plays a pivotal role in advancing the development of Fengyang County's leading industries. The Company serves two major industries of the county, namely the silicon-based materials industry and the health food industry. The Company engages in these sectors primarily through asset leasing and industrial fund investments. We believe the Company is of significant importance to Fengyang County's industrial development, and its activities are well-aligned with the government's long-term policy strategies, thereby promoting sustainable regional economic growth and industrial expansion.

Regional exclusivity in water supply operation and ore sales. As of 31 March 2025, FMWG operated 8 water treatment plants with a combined designed daily water supply capacity of 79,000 tons. In 2023, 2024 and the first quarter of 2025, revenues from water operations amounted to RMB16.6 million, RMB28.7 million, and RMB4.8 million, respectively. In 2024, the Fengyang SASAC granted the Company the disposal rights for surplus ore from 5 abandoned mine sites. As of 31 March 2025, the Company's ore reserve totaled 3.6 million tons, with an estimated total value of RMB359.1 million. This business is a significant revenue stream for the Company, accounting for around 27.8% of total income in 2024 with a high gross profit margin of 66.6%.

Good track record of receiving government supports. FXID has a good track record of receiving ongoing support from the local government in terms of its business expansion, asset injections and financial subsidies. The Fengyang County Government granted the Company the disposal rights to surplus ore produced during abandoned mines ecological restoration projects, which turned out to be one of the major revenue sources of the Company. Fengyang SASAC also transferred assets including real estates and equity of other companies to the Company, increasing its capital reserve by RMB236.0 million from 2023 to the first quarter of 2025. From 2023 to 2024, the Company received government subsidies of RMB1.5 million to support its operation.

Credit Challenges

Relatively small revenue scale and relatively weak profitability. Benefiting from the commencement of ore sales in 2024, the Company's total revenue increased from RMB74.2 million in 2023 to RMB98.5 million in 2024, representing a 32.7% YoY growth. FXID's profitability is relatively weak as reflected by the weak return on assets ("ROA") and moderate EBIT margin. From 2023 to 2024, the Company's gross profit margin declined slightly from 58.0% to 52.7% and EBIT margin decreased from 40.9% to 21.8%, mainly driven by reduced profitability of asset leasing business. The Company's assets are mainly non-current assets, resulting in limited liquidity and relatively low return. ROA fell from 0.7% in 2023 to 0.4% in 2024, mainly reflecting the increase in fund investments that have not yet generated returns, as well as a rise in construction-in-progress.

Increasing debt burden driven by large capital expenditure needs. FXID's debt burden has increased alongside business expansion, with total debt rising from RMB2.0 billion at the end of 2023 to RMB4.3 billion as of 31 March 2025, with a relatively high total capitalization ratio of 61.4%. In addition, the Company's debt maturing structure is reasonable, its short-term debt accounted for about 11.9% of its total debt as of 31 March 2025. After excluding restricted cash, the cash-to-short-term debt ratio was 2.0x, indicating that its cash reserves can fully cover short-term debt.

Modest debt servicing capability with limited financial flexibility. Due to FXID's increasing debt burden and relatively weak profitability, it has modest debt servicing capability. In addition, FXID has limited access to funding as its financing channels are bank loans and non-standard financing. The Company has good relationship with multiple domestic policy banks and commercial banks, such as Agricultural Development Bank of China and China Development Bank. As of 31 March 2025, the total credit facilities were RMB7.9 billion, with an unutilized portion of RMB3.4 billion, indicating sufficient standby liquidity. We expect that the Company will continue to broaden its financing channels, such as issuing onshore or offshore bonds.

Rating Outlook

The stable outlook on FXID's rating reflects our expectation that the Company will maintain its regional competitiveness, serving as an important industrial development platform in Fengyang County over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the parent company's capacity or willingness to provide support strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as a stronger market position and improvement in profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the credit quality of the parent company deteriorates or the likelihood of parental support is expected to be weakened; or (2) the Company's standalone credit quality worsens significantly, including a material drop in credit metrics and poor debt management.

Rating Methodology

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

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Iris Chen
Credit Analyst
+852-2860 7132
iris_chen@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656