

Credit Opinion

1 September 2025

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

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Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd. ("GSAO" or the "Company") is underpinned by the Company's (1) important position in industrial development of Gaoyao District; and (2) good market position in engineering construction in Gaoyao District.

However, the rating is constrained by the Company's (1) relatively weak profitability; (2) increasing debt burden and high short-term debt repayment pressure due to relatively large capital expenditure; and (3) modest debt servicing capability with limited 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) ultimate control by the Gaoyao District Government; (2) strategic importance in industrial investment 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 GSAO'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

- Important position in industrial development of Gaoyao District
- Good market position in engineering construction in Gaoyao District
- Revenue source relies heavily on trading business with limited profitability
- Relatively weak profitability
- Increasing debt burden and high short-term debt repayment pressure due to relatively large capital expenditure
- Modest debt servicing capability with limited 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 local government and parent company's capacity or willingness to provide support strengthens; and (2) 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 credit quality of local government and parent company deteriorates or 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.

Key Indicators

	2022FY	2023FY	2024FY
Total Assets (RMB billion)	22.4	27.8	23.8
Total Equity (RMB billion)	11.4	11.9	9.8
Total Revenue (RMB billion)	2.0	2.0	2.2
Net Profits (RMB billion)	0.2	0.3	0.3
EBIT Margin (%)	22.9	17.7	18.8
Return on Assets (%)	2.2	1.4	1.6
Total Debt/Total Capital (%)	36.3	39.4	44.6
Total Debt/EBITDA (x)	14.2	20.8	18.8
EBITDA/Interest (x)	1.4	2.2	2.8
FFO/Total debt (%)	4.8	4.7	5.3

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

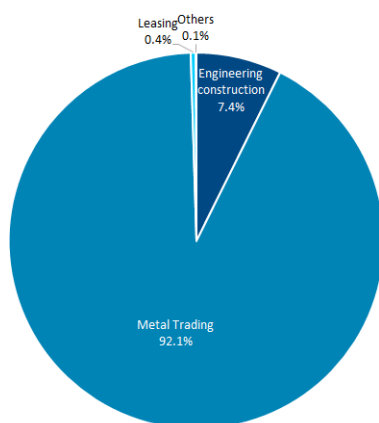
Source: Company data, CCXAP research

Corporate Profile

Founded in 1994, GSAO is a key state-owned enterprise in Gaoyao District of Zhaoqing City. The Company is mainly engaged in metal trading, property leasing, engineering construction and self-operated projects construction. At end-2024, the State-owned Assets Supervision and Administration Bureau of Gaoyao District of Zhaoqing City ("Gaoyao SASAB") was the ultimate controlling shareholder of the Company, holding 90% of

the Company's equity interests through Zhaoqing Gaosheng Urban Investment Development Co., Ltd. ("GSCI"), while the Department of Finance of Guangdong Province held the remaining 10%.

Exhibit 1. Revenue structure in 2024



Source: Company information, CCXAP research

Exhibit 2. Gross profit structure in 2024

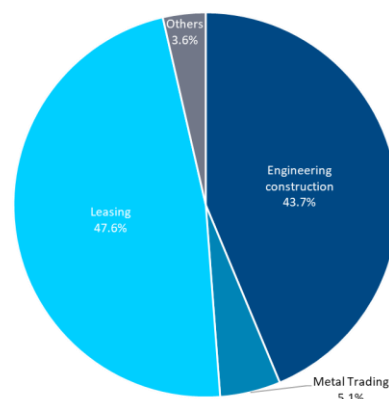
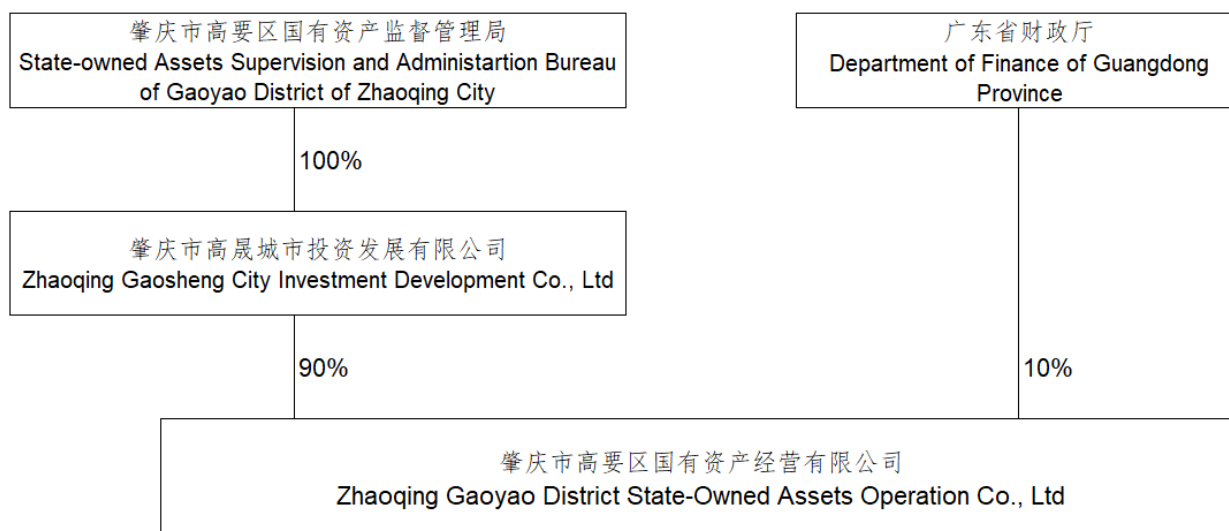


Exhibit 3. Shareholding Chart as of 31 December 2024



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Important position in industrial development of Gaoyao District

GSAO plays an important strategic role in supporting and promoting the urbanization and industrialization of Gaoyao District. A significant change occurred in 2024 when the Gaoyao SASAB discontinued the government purchase service agreement with the Company. This shifted the Company's infrastructure construction business model from agency-construction to self-construction. Consequently, the project model has been adjusted from government purchasing to government investment and project assets are now corporate-owned, with revenue

reclassified to capital reserve. Furthermore, subsidiaries primarily engaged in water supply, agency construction operations, security service and civil explosives sales were transferred out of the Company.

In accordance with the development plans of the local government in attracting enterprises and investments settling in Gaoyao District, the Company participates in the industrial development projects in Gaoyao District under the self-operated model by using its own funds and self-raised funds, with plans to achieve fund balancing through projects operations and leasing. As of 31 December 2024, the Company had 4 industrial development projects under construction with a total planned investment of RMB793.3 million and an outstanding amount of RMB119.0 million. Meanwhile, the Company had 4 industrial development projects under planning, which are mainly photovoltaic, smart parking, gas stations, and farmers' market upgrades projects, with a total estimated investment of RMB3.0 billion, indicating certain capital expenditure pressure. The Company's completed self-operated projects made a good contribution to the Company's profit, accounting for around 47.6% of total gross profit in 2024, but constrained by its limited revenue, accounting for only 0.4% of total revenue. Although these self-operated projects could be a good supplement to the Company's gross profit, they may bring certain operational uncertainties and financial risks to the Company.

Good market position in engineering construction in Gaoyao District

GSAO also undertakes engineering construction projects through bidding in public market. GSAO is a leading local E&C company in Gaoyao District, mainly in the area of infrastructure construction and municipal construction. The Company maintains high market recognition as it participates in most projects in Gaoyao District.

GSAO 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. GSAO demonstrates good project reserves that help support its future business growth. As of 31 December 2024, the total contract value of key projects under construction amounted to RMB5.9 billion with a received payments of RMB1.0 billion, indicating moderate payment collection progress. In addition, GSAO's project quality is considered high, given most of the Company's clients are the local government and SOEs that have lower 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.

However, the contribution of engineering construction business to the Company's overall revenue and gross profit is constrained by its small scale since the revenue generated from engineering construction business was RMB162.5 million, representing only 7.4% of its total revenue, and a relatively low gross profit margin of 5.4%.

Revenue source relies heavily on trading business with limited profitability

GSAO's largest revenue source is the metal trading business, accounting for 92.2% of its total revenue in 2024, with trading products mainly including electrolytic copper and aluminum ingot. The trading business was expanding rapidly along with broadening trading products, with revenue generated from trading business of RMB1.5 billion in 2023 and RMB2.0 billion in 2024. Moreover, the metal trading business is subject to concentration risks due to its relatively high reliance on top 5 customers and suppliers, accounting for 100.0% and 88.6% of the total sales and total procurements in 2024. However, the trading business has a minimal contribution to the Company's profit as recorded a gross profit margin of less than 1% in 2024, due to its low bargaining power, and it is susceptible to the volatility of commodities prices and global economic conditions.

Moreover, the Company is also responsible for operating other businesses such as garbage removal and car charging station, accounting for less than 5% of the Company's total revenue in 2024. Overall, these businesses contribute less to the Company's overall revenue but are relatively stable.

Financial Profile

Relatively weak profitability

Benefited from the expansion of metal trading businesses, GSAO's total revenue increased from RMB2.0 billion in 2023 to RMB2.2 billion in 2024, representing a YoY growth rate of 8.7%. The metal trading business is still the main contributor, accounting for 92.2% of total revenue in 2024, followed by engineering construction (7.4%), and leasing (0.4%). However, the Company's expense management ability improved with period expense ratio (mainly including marketing fee, management fee and finance cost) decreasing from 21.4% in 2022 to 8.2% in 2024.

GSAO's profitability is relatively weak as reflected by the weak return on assets and moderate EBIT margin. In 2024, the Company's EBIT margin was 18.8%, while the return on assets was 1.6%. Although newly-added leasing business recorded gross profit of RMB9.6 million and a high gross profit margin of 99.8% in 2024, the Company's gross profit was heavily affected by the transfer out of subsidiaries of operating water supply, security service, civil explosives sales businesses in 2024 while the gross profit of the Company dropped from RMB56.5 million in 2023 to RMB20.1 million in 2024.

Increasing debt burden and high short-term debt repayment pressure due to relatively large capital expenditure

Due to relatively large capital expenditure on its construction development projects, GSAO's total debt has been growing rapidly over past few years. At end-2024, the Company's total debt increased to RMB7.8 billion from RMB6.5 billion at end-2022. Affected by the transfer out of subsidiaries in 2024, the Company's total equity decreased from RMB11.9 billion at end-2023 to RMB9.8 billion at end-2024, resulting in the total capitalization ratio increasing to 44.6% at end-2024 from 39.4% at end-2023.

The Company is exposed to high short-term debt repayment pressure as its short-term debt accounted for 64.2% of its total debt as of 31 December 2024. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.1x, 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.

GSAO had significant external guarantee exposures related to local SOEs, which could potentially increase its repayment obligations. At end-2024, the Company recorded an external guarantee amount of around RMB5.4 billion, accounting for around 54.8% of net assets. The external guarantees were provided to other SOEs in Gaoyao District as mutual guarantees between local SOEs are common in the region. However, if a credit event occurs in Gaoyao District, it may lead to large-scale cross-default.

Modest debt servicing capability with limited access to funding

As the Company's debt burden increased, GSAO's long-term debt servicing capability is modest. Total debt/EBITDA ratio remained at a high level of 18.8% in 2024, despite a slight improvement as compared with 20.8% in 2023. A positive sign is the consistent improvement in the EBITDA interest coverage ratio (from 1.3x

at end-2022 to 2.8x at end-2024), which shows that the Company's operating earnings are becoming more adequate to cover its interest expenses, though the level is still considered low. Similarly, the FFO/Total Debt ratio is very weak but stable, showing a minor improvement to 5.3% in 2024. This means the cash flow generated from operations is only a small fraction of the total debt, indicating a limited ability to pay down debt principal from core operations.

The Company shows limited access to funding, including bank loans and non-standard financing. As of 31 March 2025, the non-standard debts accounted for around 35.1% of the total debt, which would bring high refinancing costs to the Company. Meanwhile, the Company has certain standby liquidity. It had total credit facilities of RMB6.2 billion from domestic policy banks and commercial banks, and an available amount of RMB1.3 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 increasing its credit facilities from banks.

External Support

High likelihood of support from the Gaoyao District Government

We anticipate the Company has a high likelihood of support from the Gaoyao District Government and its shareholder when necessary, given its (1) ultimate control by the Gaoyao District Government; (2) strategic importance in industrial investment 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 98th 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 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.

Ultimately owned and controlled by the Gaoyao SASAB, GSUI is the most important industrial investment and state-owned assets operation entity in Gaoyao District. In addition, the Gaoyao District Government maintains a high degree of control over GSAO's operations through GSUI, including the formulation of business strategies and the appointment of the board of directors and key management personnel. GSAO is also required to report its annual budget, objectives, plans and performance to Gaoyao SASAB. Furthermore, GSUI has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections.

Given its important strategic position in Gaoyao District, GSAO has a good track record of receiving ongoing government payments, in the form of operating subsidies, capital injections, project payments, and high-quality asset transfers. Since 2020, the Gaoyao SASAB has injected monetary capital of RMB1.6 billion and transferred assets including forest assets, commercial properties, factory assets and intangible assets to the Company without compensation, increasing capital reserves by RMB4.1 billion in total, substantially enhancing GSAO's capital strength. The Company also regularly receives government subsidies and project repayments from the local government over the past three years. From 2022 to 2024, the Company received government subsidies of RMB1.1 billion to support its operation and project construction.

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. GSAO 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.

GSAO 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 \(April 2019\)](#).

Appendix

Exhibit 5. Peer Comparison

	Zhaoqing Gaoyao District State-Owned Assets Operation Co., Ltd.	Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -
Shareholder	Zhaoqing Gaosheng Urban Investment Development Co., Ltd (90%); Department of Finance of Guangdong Province (10%)	the Zhaoqing Gaoyao District State-owned Assets Supervision and Administration Bureau (100%)
Positioning	Responsible for engineering project construction including development of parks, metal trading, property leasing in Gaoyao District.	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
Total Asset (RMB billion)	23.8	12.1
Total Equity (RMB billion)	9.8	6.4
Total Revenue (RMB billion)	2.2	1.0
Total Debt/Total Capital (%)	44.6	40.0

All ratios and figures are calculated using CCXAP's adjustments based on financial statements in 2024FY.

Source: Company information, CCXAP research

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