Credit Opinion

3 April 2025

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

Analyst Contacts

Peter Chong +852-2860 7124

Assistant Director of Credit Ratings

peter_chong@ccxap.com

Sherry Li +852-2860 7130

Assistant Credit Analyst

sherry_li@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

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

Client Services

Hong Kong +852-2860 7111

Science City (Guangzhou) Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Science City (Guangzhou) Investment Group Co., Ltd., with stable outlook

Summary

The A_g- long-term credit rating of Science City (Guangzhou) Investment Group Co., Ltd. ("SCIG" or the "Company") reflects Guangzhou Economic and Technological Development Zone ("Guangzhou ETDZ") Government's (1) very strong capacity to provide support, and (2) high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Guangzhou ETDZ Government's capacity to provide support reflects its strong comprehensive strength as it ranked 2nd by comprehensive strength among 230 national ETDZs in China, with ongoing economic growth and good fiscal strength.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) key role as the urban construction and renewal service provider in Guangzhou ETDZ; (2) high sustainability of public policy projects; and (3) good track record of receiving government support.

However, the Company's rating is constrained by (1) medium exposure to commercial activities with weak profitability; (2) increasing debt burden with relatively high short-term debt repayment pressure; and (3) moderate asset liquidity.

The stable outlook on SCIG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the provision of urban renewal services in Guangzhou ETDZ over the next 12 to 18 months.

Rating Drivers

- Key role as the urban construction and renewal service provider in Guangzhou ETDZ
- High sustainability of public policy projects
- Medium exposure to commercial activities with weak profitability
- Good track record of receiving government support
- Increasing debt burden with relatively high short-term debt repayment pressure
- Moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Guangzhou ETDZ 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 decrease in exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the Guangzhou ETDZ 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 payments; or increase in exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	112.7	127.6	147.1	151.9
Total Equity (RMB billion)	32.0	28.7	33.2	32.0
Total Revenue (RMB billion)	23.3	23.2	25.7	12.1
Total Debt/Total Capital (%)	75.8	75.3	76.8	80.0

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

Source: Company data, CCXAP research

Corporate Profile

Established in 1984 and formerly known as Guangzhou Economic and Technological Development Zone Construction and Development Corporation, SCIG is a key local infrastructure investment and financing company ("LIIFC") in Guangzhou ETDZ. Its main business includes urban construction and development, as well as urban renewal and renovation in Guangzhou ETDZ, covering engineering construction and sewage and sludge treatment. The Company is also engaged in some commercial activities, such as trade, production and sales of furniture and copper products, financial leasing, property management, and real estate development. As of 30 September 2024, Guangzhou Economic and Technological Development Zone Management Committee held 94.8% of the Company's shares, serving as the controlling shareholder and the ultimate controller. The remaining 5.2% of the shares are held by the Guangdong Provincial Department of Finance.

Exhibit 1. Revenue structure in 2023

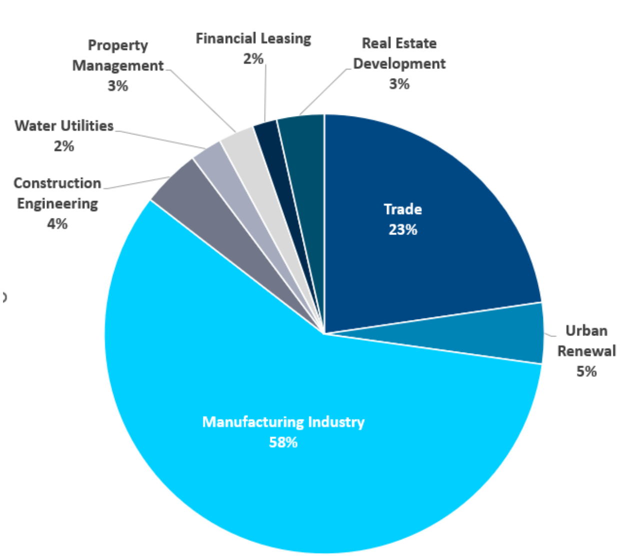
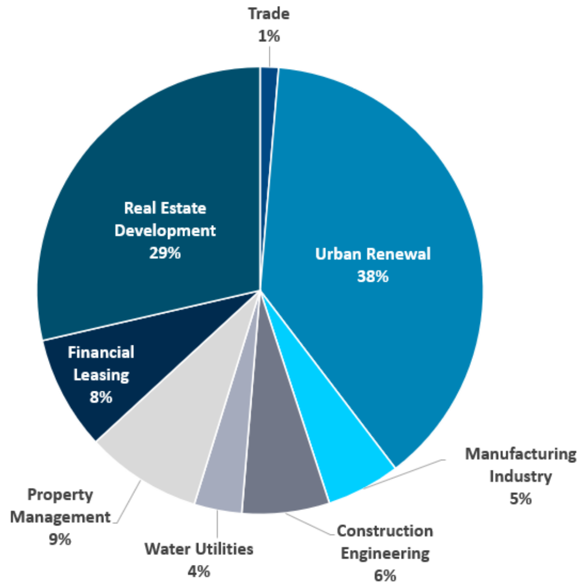
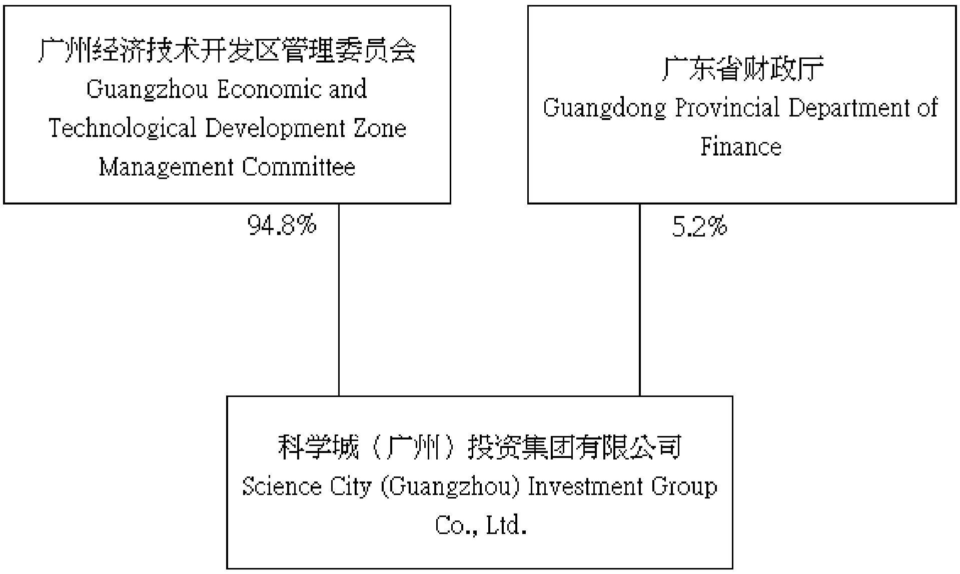


Exhibit 2. Gross profit structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 September 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Guangzhou ETDZ Government has a strong capacity to provide support to the Company, given its strong comprehensive strength, with ongoing economic growth and good fiscal strength.

Guangdong Province is located in the southern coastal area of China and is the largest economic province in the country. Dominated by manufacturing, trade, finance, and technology industries, it is an important export-oriented economic region in China. In 2024, the province's gross regional product ("GRP") reached RMB14.2 trillion, with an increase of 3.5% year-on-year ("YoY"), ranking first among all provinces in the country. The general public budget revenue is RMB1.4 trillion, of which tax revenue accounts for 72.5%. At the same time, the debt burden is moderate. In 2024, the debt balance was RMB3.5 trillion, accounting for 24.9% of the GRP.

Guangzhou City, the capital of Guangdong Province and its political, economic, and cultural hub, is located on the northern fringe of the Pearl River Delta, adjacent to the South China Sea. It adjoins Huizhou City to the east, Foshan City to the south, Zhongshan City and Jiangmen City to the west, and Qingyuan City to the north. This geographical location positions Guangzhou as a pivotal transportation hub and a major commercial and trade center in southern China, as well as a key gateway linking the Chinese mainland to Southeast Asia. In 2024, its GRP reached RMB3.1 trillion, registering a 2.1% YoY growth and ranking second in Guangdong Province. The general public budget revenue amounted to RMB195.5 billion, with tax revenue accounting for 70.2%. However, the government debt burden of Guangzhou has been on the rise year by year, increasing from RMB468.7 billion in 2022 to MB648.3 billion in 2024, accounting for 20.9% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Guangzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	2,883.9	3,035.6	3,103.3
GRP Growth (%)	1.0	4.6	2.1
General Budgetary Revenue (RMB billion)	185.5	194.5	195.5
General Budgetary Expenditure (RMB billion)	306.3	297.2	277.7
Local Government Debt (RMB billion)	468.7	553.2	648.3

Source: Statistics Bureau of Guangzhou City, CCXAP research

Guangzhou ETDZ, an important administrative district under the jurisdiction of Guangzhou City, is located in the eastern part of Guangzhou and the northern part of the Pearl River Delta. Since 2015, Guangzhou ETDZ has been merged with Huangpu District in terms of public economic data. Guangzhou ETDZ has strong comprehensive strength. It ranked 2nd by comprehensive strength among 230 national ETDZs in China, according to the evaluation results of the comprehensive development level of national ETDZs in 2024 released by the Ministry of Commerce of China. Dominated by high-tech industries and modern service industries, Guangzhou ETDZ houses multiple national-level economic functional zones such as Guangzhou Development Zone, playing a crucial supporting role in Guangzhou's economic growth. In 2024, its GRP reached RMB433.9 billion, with a YoY growth of 2.2%, ranking second among all districts in Guangzhou. Meanwhile, Guangzhou ETDZ has strong fiscal strength. In 2024, its general budgetary revenue was RMB21.3 billion, ranking first among all districts in Guangzhou. The tax revenue was RMB16.0 billion, accounting for 74.9%, also ranking first in Guangzhou. However, Guangzhou ETDZ has a relatively large and increasing debt pressure. In 2024, the debt balance was RMB59.6 billion.

Exhibit 5. Key economic and fiscal indicators of Guangzhou ETDZ

	2022FY	2023FY	2024FY
GRP (RMB billion)	431.4	431.5	433.9
GRP Growth (%)	1.5	1.2	2.2
General Budgetary Revenue (RMB billion)	18.2	20.8	21.3
General Budgetary Expenditure (RMB billion)	25.4	23.0	23.0
Local Government Debt (RMB billion)	38.7	50.7	59.6

Source: Statistic Bureau of Guangzhou ETDZ, CCXAP research

Government's Willingness to Provide Support

Key role as the urban construction and renewal service provider in Guangzhou ETDZ

There are five major state-owned urban development and construction entities in Guangzhou ETDZ, including SCIG, Knowledge City (Guangzhou) Investment Group Co., Ltd. ("KCIG"), Guangzhou Development Zone Holding Group Co., Ltd. ("GDHG"), Guangzhou High-tech Zone Investment Group Co., Ltd. ("GHIG") and Guangzhou Development Zone Investment Group Co., Ltd. ("GDIG"). KCIG mainly engages in the construction and development of Sino-Singapore Guangzhou Knowledge City, while GDHG is the largest state-owned capital operation entity in Guangzhou ETDZ. GHIG is an important entity for the construction, development, and operation of industrial parks in Guangzhou ETDZ, and GDIG is the sole investment, construction, and operation platform for transportation infrastructure and a major industrial investment and operation platform in Guangzhou ETDZ. SCIG serves as a comprehensive service provider for urban construction, development, and urban renewal in Guangzhou ETDZ. Given the Company's dominant position in Guangzhou ETDZ, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of public policy projects

As a regional investment and construction, urban renewal comprehensive service, and information industry investment platform in Guangzhou ETDZ, SCIG has a focused and important functional positioning. The Company's public services mainly include urban renewal, and water utilities within Guangzhou ETDZ. SCIG has numerous ongoing and planned projects, ensuring the sustainability of its business.

SCIG is an important urban renewal business operator, with its main business being pre-service for the "Three Olds" renovation (referring to the renovation of old villages, old factories, and old urban areas). The Company normally enters into a cooperation agreement with the relevant real estate developers, and is normally responsible for formulating the demolition plans for the project. As of 30 September 2024, the Company had 13 ongoing projects, with total investment of RMB38.3 billion and uninvested amount of RMB15.9 billion. With a large project reserve and overall investment scale, the business has good sustainability but has certain pressure on capital expenditure, and the slow collection of payments has occupied a large amount of the Company's funds. In addition, it is susceptible to changes in the real estate market conditions and policies.

SCIG is also responsible for the water utilities in Guangzhou ETDZ, including sewage and sludge treatment as well as pipeline maintenance, with strong exclusivity. As of 30 September 2024, the Company had 10 sewage treatment plants in operation, with a daily average sewage treatment capacity of 625.0 thousand tons. In 2023 and the first three quarters of 2024, the sewage treatment volumes were 149.6 million tons and 129.3 million tons, respectively. As of 30 September 2024, there were 15 ongoing sewage treatment projects, with total planned investment of RMB4.5 billion and uninvested amount of RMB1.5 billion, which puts a certain investment expenditure pressure on the Company. SCIG is also in charge of the operation, maintenance, and management of the existing drainage pipeline facilities in Guangzhou ETDZ. As of 30 September 2024, the length of pipeline maintenance was 3.4 thousand kilometers.

SCIG engages in infrastructure construction through the agent construction model and the demolition and relocation model. For the agent construction model, SCIG is not responsible for financing and prefunding the construction projects, and collects project management fees based on the progress of project construction and relevant terms, usually not exceeding 2.0% of the total project investment. For the demolition and relocation model, after the project is completed, the local government pays 1.0%-3.0% of the demolition budget as a service fee to the Company.

Medium exposure to commercial activities with weak profitability

In addition to public utilities, SCIG is involved in trading, manufacturing, construction engineering, property management, financial leasing, and real estate development. We consider SCIG's commercial business exposure to be medium, as its market-driven businesses account for around 15.0-20.0% of its total assets.

SCIG participates in construction engineering business through general contracting model, and undertakes engineering projects through public bidding. The funding for project construction largely comes from the Company's own funds and bank loans. The Company settles with the contracting party based on the proportion of completed workload to the total workload. As of 30 September 2024, the Company had 16 major contracting projects under construction, and 2 major contracting projects under planning, indicating sufficient projects at hand. From 2022 to 2023, and in the first three quarters of 2024, the revenue from construction engineering business was RMB1.6 billion, RMB1.1 billion, and RMB799.2 million, respectively. The decrease in revenue in 2023 was mainly due to the downturn in the real estate macro-environment, which led to a reduction in construction volume. The Company has a complete set of qualifications for its construction business and a sufficient number of contracts in hand, ensuring good sustainability for this part of its operations.

The property sector of SCIG consists of property leasing, property management, and hotel services. The Company currently holds property assets of various types, including factories, office buildings, shops, and residences, all located within the Guangzhou ETDZ. The primary tenants are individual merchants and enterprises. As of the end of 2023, the total floor area of the Company's main operating property assets was 1.7 million square meters, with overall occupancy rate of 32.8%. In 2023 and the first three quarters of 2024, the revenue from property leasing amounted to RMB522.4 million and RMB368.0 million. Benefiting from the Company's continuous efforts in the construction and renovation of property assets, the scale of property assets has been expanding, and the property leasing income has been growing steadily.

SCIG also has manufacturing sector, which includes furniture sales and the production and sales of copper products. With business expansion, the revenue from manufacturing sector has continuously increased for the past few years. From 2022 to 2023 and in the first three quarters of 2024, the revenue from the manufacturing sector was RMB10.3 billion, RMB14.4 billion, and RMB9.3 billion, respectively. However, its profitability is weak. In 2023, the gross profit of this business accounted for only 5.0% of the Company's total gross profit, and the gross profit margin was only 0.8%.

The Company's trade business is primarily conducted through a sales-based purchasing model. The way to obtain profits is by earning the price difference. The main trade products include building materials, chemicals, timber, oil products, coal, non-ferrous metals. From 2022 to 2023 and in the first three quarters of 2024, the gross profit margins of the trade business were 4.0%, 1.1%, and 2.3%, respectively. The significant decrease in gross profit in 2023 was mainly due to the overall economic downturn, which led to reduced customer demand, slower cash collection, and a compressed profit margin. In addition, the revenue in the first three quarters of 2024 decreased mainly due to the adjustment of the business direction of the trading segment. The Company actively shrank the scale of the trading segment and phased out businesses unrelated to its main operations.

Additionally, the Company is engaged in other businesses, including financial leasing and real estate development, which have relatively lower contributions to the overall revenue.

Good track record of receiving government support

As the most important urban development and operation entity in Guangzhou ETDZ, SCIG has a track record of receiving support from the local government. These supports take various forms, such as government subsidies, capital injections, and project receivables. In 2022, the local government contributed RMB1.4 billion to the Company, increasing its capital reserve and further strengthening the Company's capital position. In 2023, the Company received RMB1.2 billion in capital injections. In addition, the local government provided total subsidies of RMB301.0 million to the Company from 2021 to 2023. The local government also regularly makes project payments to the Company for its public policy projects. Overall, given its important position and contribution to regional economic development, we believe that SCIG will receive ongoing government support to support its business operations.

Increasing debt burden with high short-term debt repayment pressure

Affected by the expansion of urban renewal business and increased investment in the information technology sector, SCIG's debt burden has grown rapidly. The total debt increased from RMB75.7 billion at end-2021 to RMB106.7 billion as of the end of September 2024. In the same period, the total capitalization ratio maintained at a high level, rising from 75.8% to 80.0%. Meanwhile, the Company is also facing high short-term debt repayment pressures. As of 30 September 2024, the proportion of short-term debt reached 53.7%. With the gradual progress of project construction, the Company will continue to rely mainly on external financing to meet its funding gap. We expect that, given its large future capital needs, the Company's debt burden will continue to grow in the next 12 to 18 months.

In addition, the Company's contingent liability risk is manageable. As of 30 September 2024, the Company's external guarantee amount (excluding the guarantees provided by its financing guarantee subsidiary) was RMB3.1 billion, accounting for about 10% of its net assets.

Moderate asset liquidity

SCIG's asset liquidity is moderate. As of 30 September 2024, the Company's total asset consisted mainly of inventories, total receivables, and investment properties, accounting for 58.8% of its total assets. The inventories are mainly development costs for construction projects, the total receivables are primarily deposits and advances made in the course of urban renewal business, and the investment properties mainly consist of leasing properties, all of which are generally considered to have low liquidity. Nonetheless, the leasing properties and sewage treatment assets can provide stable cash flow for the Company.

Diversified financing channels but with reliance on non-standard financing

SCIG has a diversified range of financing channels, including bank borrowings, bond financing, and non-standard financing. As of 30 September 2024, bank financing accounted for approximately 47.8% of the Company's total debt. In addition, as of the end of September 2024, the Company had obtained a total credit facilities of RMB101.3 billion from various banks, of which RMB72.6 billion had been utilized, leaving a remaining available of RMB28.7 billion. The Company has a moderate reliance on non-standard financing, which accounted for 21.5% of the total debt. Moreover, the Company has maintained a solid cooperation with multiple domestic banks and enjoys smooth channels for indirect financing. Bond financing accounted for 22.7% of the total debt. The Company has a track record of fund-raising activities in both onshore and offshore debt capital markets. As of the end of 2024, the Company had issued a total of RMB36.3 billion in domestic bonds and USD950.0 million in offshore bonds.

ESG Considerations

SCIG faces environmental risks through its large-scale development projects. Such risks could be mitigated by implementing advanced waste management systems and energy-efficient technologies in its operations. Additionally, conducting comprehensive environmental impact assessments before project initiation and ensuring strict compliance with environmental regulations during execution can further reduce these risks.

SCIG bears social risks as it engages in community development initiatives. The changing demographics of the areas where the Company operates, public awareness of social issues, and evolving community expectations shape the Company's social responsibility targets and ultimately affect the local community's support for the Company. By actively engaging with local communities, promoting diversity and inclusion in its workforce, and ensuring fair labor practices, the Company can better manage these social risks.

The Company’s governance considerations are also significant as SCIG is subject to oversight by relevant regulatory bodies and has to meet various reporting requirements. This reflects its commitment to transparency and accountability. Effective corporate governance practices, such as maintaining a diverse and experienced board of directors, ensuring ethical business conduct, and protecting shareholder rights, are essential for the Company to maintain its reputation and long-term success.

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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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