Credit Opinion

22 September 2026

Ratings	
Senior Unsecured Debt Rating	BBB_g+
Long-Term Credit Rating	BBB_g+
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Foshan Sanshui Investment Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Foshan Sanshui Investment Development Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook

Summary

The BBB_g+ long-term credit rating of Foshan Sanshui Investment Development Group Co., Ltd. ("FSID" or the "Company") reflects the Company's (1) essential role as important industrial investment platform in Sanshui District (the "District"); (2) diversified sources of revenue; and (3) diversified access to funding from banks and capital markets.

However, the rating is constrained by the Company's (1) small revenue scale and modest profitability; and (2) relatively fast debt growth.

We expect the Company to have a high likelihood of receiving support from the Sanshui District Government in times of need. This expectation incorporates our considerations of the Company's (1) ultimate control by the Sanshui District Government; (2) significance as the District's industrial investment platform and as the operator of district-wide drainage and related urban services; and (3) track record of receiving support from the local government, including capital injections.

The stable outlook on FSID's rating reflects our expectation that, for the next 12 to 18 months, the local government's capacity to provide support will remain stable, and the Company will continue to serve as the industrial investment platform and a key utility operator in Sanshui District.

Rating Drivers

- Important industrial investment platform in Sanshui District
- Diversified sources of revenue
- Small revenue scale and modest profitability
- Relatively fast debt growth
- Adequate access to funding
- High likelihood of support from the Sanshui District Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Sanshui District Government increases; (2) the quality of the Company's asset mix materially improves, such as higher asset liquidity, faster collection of government-related receivables, and more stable recurring cash flow from drainage, waste-to-energy and completed self-operated projects; and (3) the Company's credit metrics improve, for example, a lower Total Debt/EBITDA ratio and a higher EBITDA/Interest ratio.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Sanshui District Government decreases; (2) operating returns on self-operated and drainage projects fall short of invested cost, or destocking of property projects slows further; or (3) the Company shows weakened access to funding and an eroded liquidity profile.

Key Indicators

	2023FY	2024FY	2025FY
Total Assets (RMB billion)	15.1	17.1	19.0
Total Equity (RMB billion)	6.4	5.8	6.5
Total Revenue (RMB billion)	1.4	1.7	1.1
Net Profits (RMB million)	5.9	47.8	24.8
EBIT Margin (%)	9,8	13.3	21.3
Return on Assets (%)	1.0	1.4	1.3
Total Debt/Total Capital (%)	43.0	54.7	58.8
Total Debt/EBITDA (x)	22.6	22.0	27.1
EBITDA/Interest (x)	1.4	1.7	1.3
FFO/Total debt (x)	-0.03	-0.02	-0.25

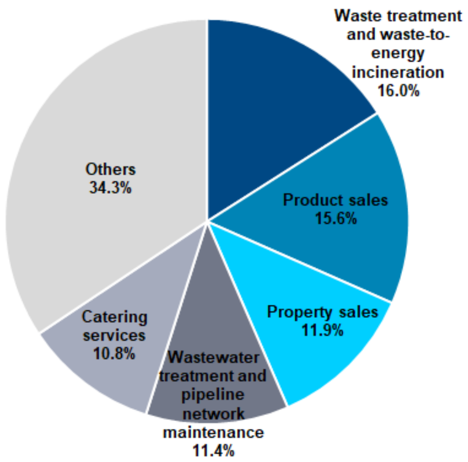
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2012, FSID is the District's industrial investment platform. It is mandated to lead the introduction of emerging industries and the upgrading of the local industrial structure. Current operations cover public drainage facility maintenance, waste treatment, project management, building-materials trading, property sales, property leasing and transportation. The Company is also developing self-operated projects in environmental protection, new energy, warehousing and logistics / supply chain, healthcare and the digital economy. It no longer acts as the construction entity for public-welfare roads, bridges and related works in the District, and existing agent-construction projects have been transferred out in stages. As of 31 December 2025, it was fully owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Sanshui District ("Sanshui SASAC").

Exhibit 1. Revenue structure in 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Important industrial investment platform in Sanshui District

From 2024, the Company has no longer been the construction entity for public-welfare projects such as roads, bridges and related works in the District. Existing agent-construction projects have been transferred out in stages, and no agent-construction revenue was recognized in 2025. The Company has further strengthened its position as an industrial investment platform in Sanshui District, focusing on the development of multiple business sectors such as environmental protection, new energy, warehousing and logistics, and supply chain. It is committed to guiding the introduction of emerging industries and promoting the transformation and upgrading of the regional industrial structure.

The Company is developing a number of self-operated projects in the District by self-raised funds. After completion, these are intended to generate income from warehousing and logistics, industrial-park leasing, hazardous-waste landfill, elderly care, concrete sales, charging stations and electricity, heat and gas supply. As of end-2025, the Company mainly had 10 self-operated projects under construction, with a planned total investment of RMB5.4 billion and an uninvested amount of RMB2.4 billion, indicating relatively high capital expenditure pressure. However, some projects are progressing slowly, and future operating returns are subject to uncertainty.

Diversified sources of revenue

In addition to industrial investment businesses, the Company has also diversified into different business segments, mainly including waste incineration, public drainage and sewage treatment, product sales, and property sales.

The waste incineration and power generation project started operation at the end of October 2024 and entered steady operation in 2025. The concession period lasts until 31 December 2052. In 2025, the project incinerated 634,000 tons of waste, generating RMB63.0 million in waste incineration revenue; it supplied 279.0 million kWh of electricity to the grid, generating RMB112.0 million in power generation revenue. In addition, the Company has a hazardous waste landfill and disposal project, which is highly susceptible to the change of waste landfill policies, resulting in low volume of hazardous waste landfill.

FSID is also entrusted by the local government to undertake the construction, operation, and maintenance of drainage facilities in Sanshui District. In 2025, the revenue from this business rose to RMB125.1 million; however, increased precipitation drove up pipeline network maintenance costs, resulting in a slight decline in the gross profit margin. As of 31 December 2025, it had 2 projects under construction with a total planned investment of RMB1.8 billion and an uninvested amount of RMB1.0 billion. The funding sources for these projects comprise policy-based financial instruments, government fiscal allocations, and bank loans. Upon project completion, the revenue from sewage pipeline maintenance fees will continue to grow.

Meanwhile, FSID is engaged in real estate development business. As of the end of 2025, the planned total investment for 2 projects for sale was RMB979.0 million, with an uninvested amount of RMB324.0 million and a total salable area of 51.4 thousand square meters ("sqm"). However, affected by the downturn in the real estate market, the sales progress is relatively slow. As of the end of 2025, the sold area reached 45.0 thousand sqm, accounting for 87.5% of the total salable area. In 2025, the sales revenue amounted to RMB130.0 million, up from RMB95.0 million in 2024. Additionally, the Company had several projects under construction with a total planned investment of RMB2.1 billion and an uninvested amount of RMB1.2 billion, presenting certain capital expenditure pressure.

The Company also conducts product sales, covering cigarettes and alcohol, beverages, construction materials, live hogs, medical devices and heating equipment. Construction materials trading is mainly operated on a sales-driven procurement model, while sales proceeds are mainly collected on a monthly basis, resulting in capital occupation and collection risks. In 2025, the Company started to adjust its supply-chain trading by reducing its trading volume, causing significant decline in sales income to RMB170.4 million from RMB627.2 million in 2024, while the gross margin rose to 9.0% from 1.5%.

In addition, FSID is involved in other commercial businesses, including catering services, property leasing, and transportation, which have relatively lower contributions to the overall revenue.

Financial Profile

Small revenue scale and modest profitability

In 2025, the Company's operating revenue fell to RMB1.1 billion from RMB1.7 billion in 2024, mainly because the waste-to-energy project started operation in October 2024 and no BOT construction revenue was recognized, and the Company adjusted its supply-chain trading plan, which sharply reduced sales income. Waste treatment and waste-to-energy incineration is the main revenue contributor, accounting for 16.0% of total revenue, followed by product sales (15.6%), property sales (11.9%), sewage treatment and pipeline network maintenance (11.4%), and catering services (10.8%).

The gross profit margin rose to 31.0% in 2025 from 14.6% in 2024. The increase was mainly due to (1) BOT construction revenue was no longer recognized, and (2) the waste-treatment gross margin improved. However, the period expense ratio rose from 18.4% in 2024 to 37.9% in 2025 as the interest expenses increased and total revenue declined. Overall, its EBIT margin rose from 13.3% in 2024 to 21.3% in 2025, remaining at a moderate level.

In addition, the Company's asset profitability is relatively weak, leading to low return on assets. The total assets of the Company mainly consist of inventories, receivables, construction in progress, other non-current assets, and intangible assets, accounting for 63.2% of total assets at end-2025. The inventories, construction in progress, and other non-current assets are development costs of construction projects, while intangible assets are primarily land use rights and concession rights. As a result, the Company's return on average assets was as low as 1.3% in 2025.

Relatively fast debt growth

Capital spending on investment and construction projects has pushed borrowing higher. The Company's adjusted total debt rose to RMB9.3 billion at end-2025 from RMB7.1 billion at end-2024, and the total capitalization ratio rose to 58.8% from 54.7%. However, the short-term debt repayment pressure is manageable, with short-term debt ratio of 5.7% and cash to short-term debt ratio of 2.4x at end-2025. We expect that, given its significant capital expenditure needs, the Company's debt burden will continue to grow over the next 12 to 18 months.

In 2025, the total debt/EBITDA ratio was 27.1x and EBITDA interest coverage ratio was 1.3x. Its funds from operation ("FFO") are also insufficient to cover its debts, with net operating cash outflow of RMB289.8 million and FFO to total debt ratio of -0.3x in 2025. Debt servicing therefore depends more on external financing than on operating cash flow.

Adequate access to funding

The Company funds itself mainly with bank loans and bonds, which accounted for 57.9% and 34.1% of total debt at end-2025, respectively. Its standby liquidity is adequate. As of end-2026Q1, the Company bank facilities totaled RMB14.4 billion, of which RMB5.6 billion was undrawn. Unused facilities are relatively sufficient and can be used flexibly to meet funding needs. The Company and its subsidiaries have a track record of fundraising activities in both onshore and offshore bond markets, including the issuance of corporate bonds, perpetuals, CMBS, and offshore RMB bonds.

External Support

High likelihood of support from the Sanshui District Government

We expect the Company to have a high likelihood of receiving support from the Sanshui District Government in times of need. This expectation incorporates our considerations of the Company's (1) ultimate control by the Sanshui District Government; (2) significance as the District's industrial investment platform and as the operator of district-wide drainage and related urban services; and (3) track record of receiving support from the local government, including capital injections.

Sanshui District is a district of Foshan City in Guangdong Province, at the center of the Guangzhou–Foshan metropolitan area and the main battlefield of Foshan's northward strategy. Its six leading industries are high-end equipment manufacturing, new power equipment, food and beverage, new materials, biomedicine and healthcare, and next-generation electronic information. In 2025, the District's gross regional product ("GNP") was RMB153.8 billion, up by 0.1% year-on-year, and GNP per capita was about RMB172,997. General public budgetary revenue was RMB5.8 billion. The District ranked 22nd among China's top industrial districts and 31st among the 2025 top 100 districts by comprehensive strength. Investment attraction exceeded RMB80.0 billion for three consecutive years.

Sanshui SASAC owns 100% of the Company's shares and is the actual controller. The board of directors and senior management are appointed directly by the District Government, which has strong control over the Company's strategy and operations.

The Company is the District's important industrial investment platform. It develops projects in warehousing and logistics and supply chain, environmental protection and new energy, industrial parks and healthcare, and is responsible for district-wide drainage construction, operation and maintenance.

Given this strategic role, the Company has received support from the local government. In 2025, the Sanshui SASAC injected capital of RMB216.0 million into the Company, raising its paid-in capital to RMB1.5 billion. At end-2025, long-term payables mainly comprised interest-free special payables of RMB1.1 billion and other long-term payables of RMB135.0 million, including the Youjin Bridge investment loan, both interest-free. Public drainage works under construction had a planned total investment of RMB1.8 billion and a cumulative investment of RMB759.0 million, funded by policy-based financial instruments, fiscal funds and bank loans. Government subsidies were RMB6.2 million in 2025 and RMB2.4 million in 2024. Separate from subsidies, the District SASAC injected RMB216.0 million of capital in 2025. Given its position in the District's industrial development and urban operations, we believe the local government will provide ongoing support to the Company.

ESG Considerations

FSID faces environmental risks because it has undertaken construction projects and public services. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

FSID bears social risks as it plays a crucial role in the social welfare of the residents in Sanshui District by providing public services. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

FSID's governance considerations are also material as the Company is subject to oversight by the Sanshui District Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Subordination

FSID's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important role as the most important industrial investment entity and utility services provider in Sanshui District, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for General Corporate (May 2026).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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