

# Guangde State-owned Assets Investment and Management Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	21 November 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Guangde State-owned Assets Investment and Management Co., Ltd. (“GSAIM” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Guangde City, Xuancheng City (“Guangde government”) would provide strong support to GSAIM if needed, in light of its full ownership of GSAIM, GSAIM’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and operation and resettlement housing construction in Guangde City, Xuancheng City (“Guangde”), and the linkage between the Guangde government and GSAIM, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Guangde government may face significant negative impact on its reputation and financing activities if GSAIM encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that GSAIM’s strategic importance would remain intact while the Guangde government will continue to ensure GSAIM’s stable operation.

### Rating Rationale

**Guangde Government’s Ownership and Supervision:** The Guangde government holds the full ownership of GSAIM through the State-owned Assets Supervision and Administration Commission of the People’s Government of Guangde City (“Guangde SASAC”). The Guangde government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Guangde government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Guangde and Strategic Alignment:** GSAIM, as the key LIDC in Guangde, is primarily responsible for the investment, development and operation of infrastructure and resettlement housing projects within the region. Serving as the key entity in charge of infrastructure related projects throughout the entire city (except Economic Development Zone of Guangde, Anhui), GSAIM mainly engaged in resettlement housing construction, urban renewal, road construction and improvement, environmental enhancement, water conservancy and reservoir projects and other infrastructure projects with strong regional advantages. GSAIM plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

**Ongoing Government Support:** GSAIM received operational and financial support from the government. GSAIM received a total subsidy amount of RMB421.6 million from 2020 to the first six months of 2023. The Guangde government continued to inject capital, real estates and other kinds of assets, and equities of other companies into GSAIM to expand

### Key Figures of Guangde and GSAIM

(RMB billion)	2021	2022
<b>Guangde</b>		
GDP	38.1	40.4
GDP growth rate (%)	11.0	5.8
Budgetary revenue	3.3	3.6
Government fund	1.2	1.8
Transfer payment	2.0	2.5
Budgetary expenditure	5.1	6.1
<b>GSAIM</b>	<b>2022</b>	<b>2023.6</b>
Assets	30.1	32.3
Equity	15.1	15.2
Revenue	2.7	1.0

Source: Public information, GSAIM and Lianhe Global’s calculations

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

its asset size. Besides, the Guangde government will repurchase some infrastructure projects and provide policy supports to GSAIM to ensure its business operation. Given that it is the key entity for infrastructure construction and operation in Guangde, GSAIM has an advantage in acquiring related resources and major projects. We believe GSAIM is likely going to receive government support to support its daily business operation.

**GSAIM's Financial Matrix and Liquidity Position:** GSAIM's total assets showed a continuous growth trend in the past years and reached RMB32.3 billion at end-June 2023, mainly due to the increase of other account receivables. The non-current assets of GSAIM accounted for 54.0% of the total assets at end-June 2023, and the overall asset liquidity was moderate. GSAIM's financial leverage (total liabilities to total assets) was 52.9% and its adjusted debt increased to RMB13.7 billion at end-June 2023 from RMB9.0 billion at end-2021. The liquidity of GSAIM was moderately tight. At end-June 2023, GSAIM had a cash balance and unused credit facilities of RMB2.6 billion (including restricted cash of RMB1.2 billion) and RMB1.3 billion, respectively, compared with its debt due within one year of RMB4.2 billion. Having said that, GSAIM has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Guangde:** Guangde is a county-level city located in the west of Xuancheng City, Anhui Province, with a total land area of 2,165 square kilometers. Guangde recorded an economic growth in 2022, achieving a GDP of RMB40.4 billion, with a year-on-year growth of 5.8%. Its GDP scale was ranked 3<sup>rd</sup> among the 7 jurisdictions of Xuancheng in 2022.

The Guangde government's aggregate fiscal revenue is mainly derived from budgetary revenue, which grew steadily in the past few years and reached RMB3.6 billion in 2022. The fiscal self-sufficiency of the Guangde government was insufficient, and it recorded a budget deficit of 70.7% in 2022. Therefore, the Guangde government highly relied on transfer payments from higher government and government fund income, which reached RMB2.5 billion and RMB1.8 billion in 2022, respectively. The fiscal debt ratio of the Guangde government, as measured by total government debt outstanding/aggregate revenue, had increased to 126.5% at end-2022 from 105.2% at end-2020, mainly due to the increase in special debt.

## Rating Sensitivities

We would consider downgrading GSAIM's rating if (1) there is perceived weakening in support from the Guangde government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Guangde government's ownership of GSAIM, or (3) there is a downgrade in our internal credit assessment on the Guangde government.

We would consider upgrading GSAIM's rating if (1) there is strengthened support from the Guangde government, or (2) there is an upgrade in our internal credit assessment on the Guangde government.

## Operating Environment

### Economic Condition of Guangde

Guangde is a county-level city directly under the jurisdiction of Anhui Province and managed by Xuancheng City on behalf of Anhui Province. Guangde is located in the southeast of Anhui Province, connecting Zhejiang and Jiangsu provinces. Guangde has jurisdiction over

4 streets and 9 towns, with a total area of 2,165 square kilometers. According to the 7th national census, Guangde had a resident population of c. 0.5 million, with an urbanization rate of 63.0%.

Guangde's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.6%, 11.0% and 5.8% in 2020, 2021 and 2022, respectively. Its GDP reached c. RMB40.4 billion in 2022, which was ranked 3rd among the 7 jurisdictions of Xuancheng. Guangde's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 50.2% and 42.5% in 2022, respectively. Guangde focused on the development of electronic circuits, auto parts, intelligent equipment and new material industries in recent years. The fixed asset investment of Guangde maintained rapid growth in recent years, with its growth rate increasing to 17.1% in 2022 from 9.0% in 2020, which is mainly attributed to the rapid growth in industrial and infrastructure investments.

#### Guangde's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	33.0	38.1	40.4
-Primary industry (%)	8.1	7.5	7.3
-Secondary industry (%)	47.6	49.4	50.2
-Tertiary industry (%)	44.3	43.1	42.5
GDP growth rate (%)	3.6	11.0	5.8
Fixed asset investment	17.7	20.7	24.2
Fixed asset investment growth rate (%)	9.0	16.7	17.1
Population (million)	0.5	0.5	0.5

Source: Public information and Lianhe Global's calculations

#### Fiscal Condition of Guangde

The Guangde government's aggregate fiscal revenue is mainly derived from budgetary revenue, which grew steadily in the past few years and reached c. RMB3.6 billion in 2022. The tax revenue accounted for 73.0% of the budgetary revenue in 2022, down from 73.3% in 2021 and 77.3% in 2020. The fiscal self-sufficiency of the Guangde government was insufficient, and it recorded a budget deficit of 70.7% in 2022. Therefore, the Guangde government highly relied on transfer payments from higher government and government fund income, which reached c. RMB2.5 billion and c. RMB1.8 billion in 2022, respectively.

The outstanding debt of the Guangde government continued to grow. At end-2022, the Guangde government's outstanding debt was c. RMB9.9 billion, including RMB3.2 billion of general obligations and RMB6.7 billion of special debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 126.5% at end-2022 from 105.2% at end-2020, mainly due to the increase in special debt.

#### Guangde's Fiscal Condition

(RMB billion)	2020	2021	2022
Budgetary revenue	2.9	3.3	3.6
Budgetary revenue growth rate (%)	5.6	13.9	10.0
Tax revenue	2.2	2.4	2.6
Tax revenue (% of budgetary revenue)	77.3	73.3	73.0
Government fund income	1.5	1.2	1.8
Transfer payment	2.2	2.0	2.5
<b>Aggregate revenue</b>	<b>6.5</b>	<b>6.5</b>	<b>7.8</b>
Budgetary expenditure	5.1	5.1	6.1
Budget balance <sup>1</sup> (%)	-77.9	-57.5	-70.7

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

GSAIM was established in June 2002 with an initial registered capital of RMB3 million, funded by Guangde Finance Bureau.

After an array of capital injections and equity transfers, GSAIM's registered and paid-in capital reached RMB2.5 billion and RMB1.498 billion at end-June 2023, respectively. GSAIM had a shareholding structure in which the Guangde SASAC, as the solo and actual controlling shareholder, held 100% of the company's equity.

## Strategic Importance and Government Linkage

### Strategic Importance of GSAIM to Guangde

GSAIM, as the key LIDC in Guangde, is primarily responsible for the investment, development and operation of infrastructure and resettlement housing projects within the region. Serving as the key entity in charge of infrastructure related projects throughout the entire city (except Economic Development Zone of Guangde, Anhui), GSAIM mainly engaged in resettlement housing construction, urban renewal, road construction and improvement, environmental enhancement, water conservancy and reservoir projects and other infrastructure projects with strong regional advantages. GSAIM plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

### Strong Linkage with the Local Government

GSAIM's linkage with the local government is strong as the Guangde government holds the full ownership of GSAIM through Guangde SASAC. The Guangde government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Guangde government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

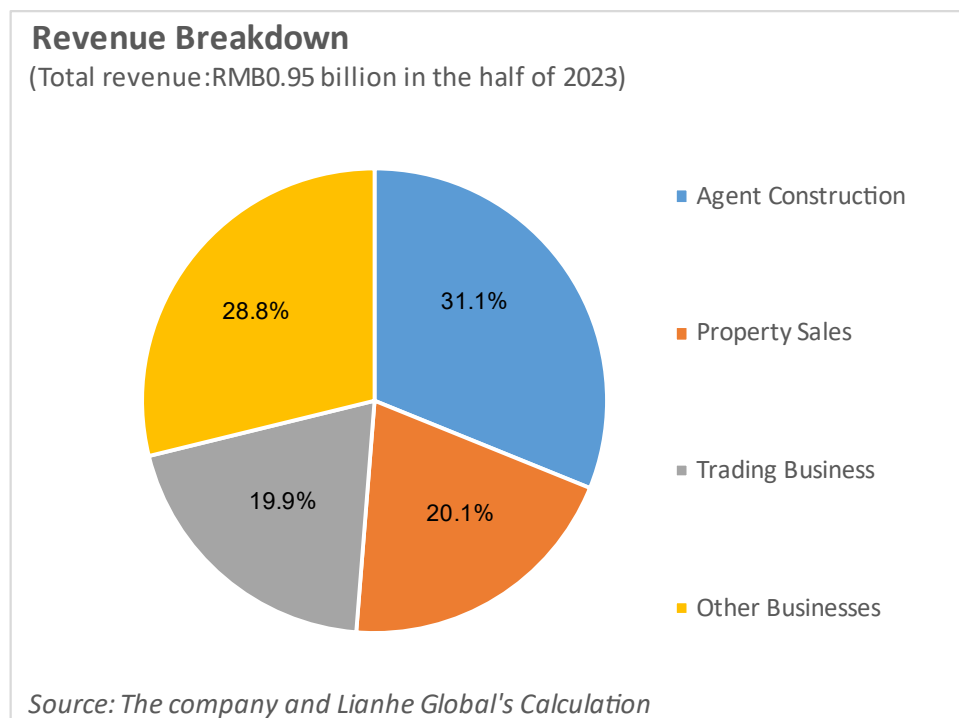
### Government Support

GSAIM received operational and financial support from the government. GSAIM received a total subsidy amount of RMB421.6 million from 2020 to the first six months of 2023. The Guangde government continued to inject capital, real estate and other kinds of assets, and equities of other companies into GSAIM to expand its asset size. Besides, the Guangde government will repurchase some infrastructure projects and provide policy supports to GSAIM to ensure its business operation. Given that it is the key entity for infrastructure construction and operation in Guangde, GSAIM has an advantage in acquiring related resources and major projects. We believe GSAIM is likely going to receive government support to support its daily business operation.

## Business Profile

### The Most Important Entity Responsible for Infrastructure and Resettlement Housing Construction in Guangde

GSAIM, as the most important LIDC in Guangde, is mainly responsible for the construction of infrastructure facilities, resettlement housing and major public projects within the region, enjoying a regional franchise advantage. The primary sources of operating revenue for GSAIM are agent construction, property sales and trading business, while it also engaged in road construction and maintenance, sand and asphalt sales, tourism and catering, guarantee business, etc. The company's total revenue reached c. RMB1.4 billion, RMB1.8 billion, RMB2.7 billion and RMB0.95 billion in 2020, 2021, 2022 and the first half of 2023, respectively. The overall gross profit margin of GSAIM fluctuated between 7.3% and 15.8% over the same period.



### Agent Construction

GSAIM is designated by the Guangde government to undertake infrastructure construction projects within the region, including municipal facilities and roads. The projects in this segment are mainly conducted in agent construction mode, where the company signs agent construction agreements with Guangde Finance Bureau and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a 10% of management fees with Guangde Finance Bureau according to the project's progress. The revenue derived from this segment was on a downward trend in the past few years, recording at RMB914 million, RMB572 million, RMB544 million and RMB297 million in 2020, 2021, 2022 and the half of 2023, respectively. Its gross profit margin in this segment remained stable at 4.6% over the same period. Currently, the company is working on several large-scale projects, thus it incurs high capital expenditure pressure.

### Property Sales

Property sales business mainly involves the construction and sales of resettlement housing, which is handled by GSAIM's subsidiary, Guangde Urban Development Investment Co., Ltd. The projects in this segment were conducted in agent construction mode before 2019, and then turned into self-operated mode, where the company is responsible for fundraising,

construction and sales. The revenue derived from this segment was volatile in the past few years, recording at RMB168 million, RMB462 million, RMB962 million and RMB192 million in 2020, 2021, 2022 and the half of 2023, respectively. Its gross profit margin in this segment fluctuated between 2.0% and 38.9% over the same period.

### Trading Business

The company's trading business is mainly engaged in the sales of chemicals, sand and gravel, aluminum bar, steel, etc. The trading business is mostly conducted in a "demand-driven" model, where it determines the amount of materials to be procured strictly based on the actual purchase orders placed by customers. The revenue derived from trading business reached RMB437 million, RMB698 million and RMB190 million in 2021, 2022 and the half of 2023, respectively. Its gross profit margin in this segment was low, staying around 2% over the same period. The company's trading business has a high concentration of customers, mainly consisting of private enterprises, indicating a high counterparty risk.

### Other Businesses

Except for the above businesses, the company also operates other businesses including road construction and maintenance, sand and asphalt sales, tourism and catering, guarantee business, etc., making the company's income structure more diversified while forming a better complement to the company's overall income.

## Financial Profile

### Balance Sheet Structure and Quality

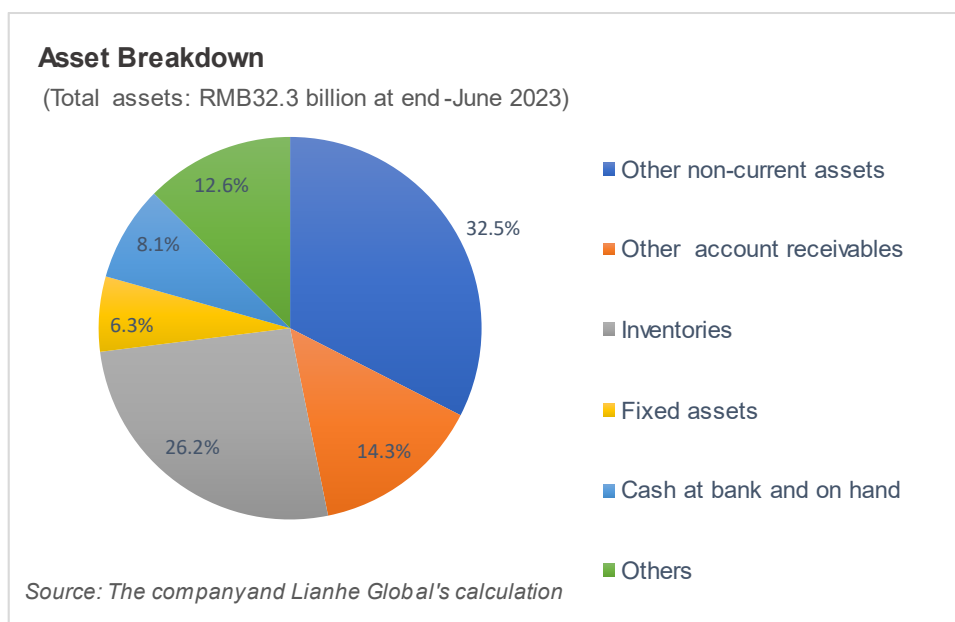
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June 2023
Total Asset	22,632	26,932	30,122	32,293
Equity	12,898	13,940	15,120	15,210
Debt	5,275	9,046	11,533	13,696
Debt / (Debt + Equity) (%)	29.0	39.4	43.3	47.4
LT Debt	4,026	7,152	8,317	9,478
LT Debt / (LT Debt + Equity) (%)	23.8	33.9	35.5	38.4

Source: Company information and Lianhe Global's calculations

GSAIM's asset size grew moderately to RMB32.3 billion at end-June 2023 from RMB22.6 billion at end-2020, largely attributed to the increase in other account receivables, which is primarily due from government agencies and other SOEs in the region. The current assets (RMB17.4 billion at end-June 2023) accounted for 54.0% of the company's total assets at end-June 2023, and were mainly constituted of inventory, other account receivables, and cash. The cash accounted for 14.9% of its current assets at end-June 2023. The non-current assets of GSAIM were RMB14.8 billion at end-June 2023, which mainly consisted of fixed assets, intangible assets and other non-current assets.

The company's asset liquidity was moderate due to its substantial scale of undeveloped land, accounts receivable, and contract fulfillment costs. As of the end of June 2023, undeveloped land constituted 83.4% of the company's inventory, primarily located in the counties of Guangde. The nature of these land was designated for development. Contract fulfillment costs are primarily associated with infrastructure construction and have increased with the progress of the project development. Some of the receivables from the government were offset by physical assets. However, the majority of the assets offset by the government are

non-public welfare assets and can generate certain operating income. Therefore, the overall risk was manageable.



The financial leverage (total liabilities to assets) of GSAIM increased moderately to 52.9% at end-June 2023 from 43.0% at end-2020. The increase in financial leverage was mainly due to the increase in long-term borrowing. Given the company's substantial scale of ongoing or planned infrastructure projects, implying significant capital expenditures, we expect a continuous increase in the company's financial leverage. However, in consideration of government guidelines, it is expected to be maintained below 60%. GSAIM's total debts expanded to RMB13.7 billion at end-June 2023, more than doubled compared with RMB5.3 billion at end-2020. The total debt and long-term debt ratios, which are measured as total debt over the sum of debt and equity, together with long-term debt over the sum of long-term debt and equity, increased to 47.4% and 38.4% at end-June 2023, respectively.

### Debt Servicing Capability

The liquidity of GSAIM was moderately tight. At end-June 2023, GSAIM had a cash balance and unused credit facilities of RMB2.6 billion (including restricted cash of RMB1.2 billion) and RMB1.3 billion, respectively, compared with its debt due within one year of RMB4.2 billion. Having said that, GSAIM has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.



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