

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Foshan Gaoming Construction Investment Group Co., Ltd.

HONG KONG, 6 December 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Foshan Gaoming Construction Investment Group Co., Ltd. (“FGCI”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Foshan City (“Foshan government”) and the People’s Government of Gaoming District (“Gaoming government”) would provide strong support to FGCI if needed, in light of its ownership of FGCI, FGCI’s strategic importance as an important local investment and development company (“LIDC”) for infrastructure construction and state-owned asset operation in Gaoming District (“Gaoming”), and the linkage between the Gaoming government and FGCI, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support, etc. In addition, the Gaoming government may face significant negative impact on its reputation and financing activities if FGCI encounters any operational and financial difficulties.

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

Key Rating Rationales

The Government’s Ownership and Supervision: The Gaoming District State-owned Assets Supervision and Administration Bureau (“Gaoming SASAB”) holds 90% of the FGCI’s ownership, which is the controlling shareholder and actual controller of FGCI. The remaining stake is held directly by the Guangdong Provincial Department of Finance (“Guangdong DF”). The Gaoming government has the final decision-making authority and strong supervision over the company, including appointment and supervision of the senior management, strategic alignment and decision on its major investment and financing plan decisions. In addition, the Gaoming government has assessment mechanism over the company and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance to Gaoming and Strategic Alignment: The company is an important LIDC that is responsible for infrastructure construction and state-owned asset operation in Gaoming. FGCI’s main business income sources are municipal business, meat sales and processing, as well as tram operation.

Also, the company participates in the development of the new airport located in Gaoming and recommended by Foshan, which is integrated into the overall planning of the transportation

hub of the Pearl River Delta region. The company participates in the investment and development of the airport economic zone, as well as commercial ancillary facilities of the industrial parks in the airport economic zone. Therefore, FGCI plays an important role in promoting economic and social development for the region. Its business operation and strategic planning have been aligned with the Foshan and Gaoming government's development plans.

Strong Government Support: FGCI continues to receive support from the local government. The company received several arrays of asset and equity injections, mainly including properties, grain storage business, etc. Also, between 2022 and the first half of 2024, FGCI received the subsidies amounting RMB113 million. These injections enlarged the company's total asset scale. Given FGCI's strategic importance in Gaoming, we believe FGCI is likely going to receive government support.

Economy and Fiscal Condition of Gaoming: Gaoming District, under the jurisdiction of Foshan City, Guangdong Province, is located in the central part of Guangdong Province and the western wing of the Pearl River Delta. It is an important node where the Pearl River and the Xijiang River meet.

At end-2023, Gaoming had a resident population of 0.5 million. Gaoming recorded a GDP of RMB110.1 billion in 2023. Its economic growth rate accelerated to 6.0% in 2023 from 3.5% in 2022. The Gaoming government's budgetary revenue was RMB3.9 billion in 2023. Over the same period, tax revenue decreased slightly to RMB1.9 billion from RMB2.3 billion. Consequently, the contribution of tax revenue to the budgetary revenue decreased further to 47.2% in 2023 from 52.9% in 2022. The financial self-sufficiency rate of Gaoming was insufficient and it recorded a budget deficit of 41.1% in 2023. The outstanding debt of the Gaoming government continued to grow and reached RMB16.1 billion at end-2023, which included RMB2.4 billion of general obligations and RMB13.7 billion of special purpose debt. The debt ratio, as measured by the total government debt/aggregate revenue, surged to 161.0% at end-2023 from 139.0% at end-2022, mainly due to the increase in special purpose debt.

FGCI's Financial and Liquidity Position: FGCI's total assets increased to RMB14.9 billion at end-June 2024 from RMB13.6 billion at end-2021, as the company continuously received injections from the Gaoming government. Similarly, the total debt of the company increased to RMB7.6 billion at end-June 2024, compared with RMB6.0 billion at end-2021. The company's financial leverage, as measured by debt/capitalization, increased to 57.8% at end-June 2024 from 55.1% at end-2021, as the company increased its leverage gradually.

FGCI's liquidity was moderately weak. At end-June 2024, FGCI had unrestricted cash balance of RMB334 million and unused credit facilities of RMB682.6 million, compared with its debt to be due within one year of RMB3.7 billion. Moreover, FGCI has access to various financing channels, including bank loans to support its debt repayment and business operations.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this FGCI's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 31 July 2024, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

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