

CCXAP upgrades Shangrao Innovation Development Industry Investment Group Co., Ltd.'s long-term credit rating to BBB_g-, with stable outlook

Hong Kong, 31 March 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Shangrao Innovation Development Industry Investment Group Co., Ltd.’s (“SIIG” or the “Company”) to BBB_g- from BB_g+. The rating action is based on our view that the government is providing stronger support to the Company. We also consider the reduced investment risk of the Company’s fund investment business.

The BBB_g- long-term credit rating of SIIG is underpinned by the Company’s (1) strong position in public service provision in Shangrao Economic and Technical Development Zone (“Shangrao ETDZ”); and (2) important position in industrial investment of Shangrao City.

However, the rating is constrained by the Company’s (1) high debt leverage; and (2) moderate asset quality and weak liquidity profile.

The rating also incorporates our expectation that SIIG has a high likelihood of receiving government support based on the Company’s (1) important role in Shangrao City and Shangrao ETDZ; (2) close relationship with the local government; and (3) good track record of receiving support.

Corporate Profile

Founded in 2015, SIIG, previously known as Shangrao Economic and Technical Development Zone State-owned Capital Operation Co., Ltd., is one of the largest financing and investment enterprises in Shangrao City. The Company mainly engaged in infrastructure construction, industrial investment, water supply and sewage treatment businesses in Shangrao ETDZ. As of 30 September 2021, Shangrao State-owned Assets Supervision and Administration Commission (“Shangrao SASAC”) was its ultimate controller and held 55% of the Company’s stake, while Shangrao ETDZ Administrative Committee held the remaining 45%. The Company had paid-in capital of RMB7.0 billion as of the same date.

Rating Rationale

Credit Strengths

High likelihood of receiving government support when needed. SIIG is the largest investment and financing enterprises in Shangrao ETDZ and the sole industrial investment entity in Shangrao City. It has also undertaken and completed a large number of infrastructure construction projects, has the sole franchise rights of water supply and sewage treatment, and is responsible for shantytown renovation projects, in Shangrao ETDZ. SIIG is ultimately controlled by Shangrao SASAC, which is under the direct administration of Shangrao Municipal Government and has a good track record of receiving support from local government in terms of capital injection, asset injection and subsidies.



Strong position in public service provision in Shangrao ETDZ. As the largest infrastructure construction entity in Shangrao ETDZ, SIIG undertakes more than 90% of infrastructure construction projects in Shangrao ETDZ, forming a quasi-monopoly position. In addition, SIIG is the sole entity to provide water supply and sewage treatment services in Shangrao ETDZ.

Important position in industrial investment of Shangrao City, with reduced investment risk. SIIG is positioned to be an important industrial investment entity to promote the development of pillar industries in Shangrao City. It engages in industrial investment business by ways of fund investment, entrusted loans, direct lending and guarantees. With strengthened risk management of the fund investment and reduced scale of the entrusted loans, we believe that the investment risk of the business has reduced to a manageable level, which is credit positive to the Company.

Credit Challenges

High debt leverage due to extensive construction pipelines. SIIG has high debt leverage due to its debt-driven business expansion over the past few years. As of 30 September 2021, the Company's total debt amounted to RMB40.3 billion, and its total debt to total capital ratio was 54.0%.

Moderate asset quality and weak liquidity profile. SIIG's asset quality is considered moderate. Although the Company's utility and rental housing assets can generate stable income, its asset liquidity is relatively weak. In addition, the Company's liquidity profile is weak. As of 30 September 2021, the Company's cash to short-term debt ratio was 0.2x, indicating that its cash reserve was insufficient to cover its short-term debt of RMB15.4 billion.

Rating Outlook

The stable outlook on SIIG's rating reflects our expectation that the Company will maintain its important role in Shangrao ETDZ and Shangrao City and will continue to receive government support over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal strength of Shangrao City and Shangrao ETDZ improves notably; (2) the likelihood of government support for the Company increases, such as the Company playing a stronger role in Shangrao City; and (3) the Company's stand-alone credit profile improves, such as improved business sustainability and profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal strength of Shangrao City and Shangrao ETDZ deteriorates significantly; (2) the likelihood of government support for the Company decreases; or (3) the Company's stand-alone credit profile weakens, such as heightened debt leverage and weakened liquidity.



Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

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

Peter Chong

Credit Analyst

+852-2860 7124

peter_chong@ccxap.com

Elle Hu

Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2022 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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