

CCXAP assigns first-time long-term credit rating of A_g- to Guangdong Shunde Holding Group Co., Ltd., with stable outlook.

Hong Kong, 4 August 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time A_g- long-term credit rating to Guangdong Shunde Holding Group Co., Ltd. (“Shunde Holding” or the “Company”), with stable outlook.

The A_g- long-term credit rating of Guangdong Shunde Holding Group Co., Ltd. (“Shunde Holding” or the “Company”) reflects (1) Shunde District Government’s very strong capacity to support, and (2) the local government’s very high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Shunde District Government’s capacity to support reflects its vital role in Foshan City and Guangdong Province, with strong economic condition, good fiscal metrics and debt profile.

Shunde Holding’s rating also reflects the local government’s very high willingness to support, which is based on the Company’s (1) important role in local infrastructure projects; (2) monopoly position in public utility services with high sustainability; (3) good track record of receiving government payments; and (4) robust balance sheet structure with fair access to capital. However, the Company’s rating is constrained by its (1) large exposure to commercial activities with certain capital pressure; and (2) medium exposure to contingent risk.

Corporate Profile

Founded in 2010, Shunde Holding is a local infrastructure investment and financing company (“LIIFC”) with the largest total assets in Shunde District. Shunde Holding is responsible for major public infrastructure and welfare projects in the district, including the provision of public utility services such as water supply and waste-to-energy, pipeline network construction, and infrastructure construction such as roads and bridges, and undertaking local environmental protection projects. It also has commercial operations, including property development and operations, equity investments, and security services. As of 31 March 2022, the Company was 90.41% owned by the State-owned Assets Supervision and Administration Commission of Shunde District and 9.59% owned by the Guangdong Provincial Department of Finance.

Rating Rationale

Credit Strengths

Important role in local infrastructure projects. Shunde Holding is one of the key LIIFCs in Shunde District and Foshan City, with a clear strategic role in regional development. The Company is mainly responsible for the management of infrastructure projects such as roads and bridges in Shunde District. The Company also undertakes the maintenance of local roads and bridges in Shunde District, including Wusha Bridge and Magang Bridge.

Monopoly position in public services with high sustainability. Shunde Holding is the sole water supplier in Shunde District, with nearly full market coverage of the district. It has a long concession for water supply business until 2045, demonstrating strong sustainability. The



Company also participates in waste incineration power generation, waste treatment, and sludge drying in Shunde District. We believe that the replacement cost for the Company's role is high as these public services are essential for local residents.

Good track record of receiving government payments. Government payments for Shunde Holding's public infrastructure projects are timely and adequate, as most of its projects are fully supported by the district's fiscal budget. This could largely reduce the capital pressure on Shunde Holding. In addition, there is a proven track record of government support from the Shunde District Government, including capital injections, asset injections and subsidies. From 2020 to 2021, Shunde SASAC has injected cash of RMB1.8 billion into the Company.

Robust balance sheet structure with fair access to capital. The Company maintained moderate debt leverage with a total capitalization ratio of 30.4% as of 31 March 2022, despite increasing debt burden from continuous expansion. Majority of its debt came from large domestic banks such as Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of Communications and other state-owned banks, with relatively low cost.

Credit Challenges

Large exposure to commercial activities with certain capital pressure. Shunde Holding has high exposure to commercial businesses, including property development, property leasing, security service and strategic investments, which accounted for more than 30% of total assets as of end-2021. Most of its commercial businesses are funded through external debt issuance and we expect it will increase its debt level over the next 12-18 months.

Medium exposure to contingent risk. Shunde Holding bears certain contingent risks, driven by its large external guarantees with no counter-guarantee measures. As of 31 March 2022, the Company provided guarantees of around RMB4.7 billion to third parties, accounting for 34.0% of its net assets.

Rating Outlook

The stable outlook on Shunde Holding's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will continue to play a role in local infrastructure projects and public service delivery in Shunde District.

What could upgrade the rating?

The rating could be upgraded if (1) Shunde District's economic prospects and fiscal performance improve and its ability to support the Company increases; (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and increases public policy status.



What could downgrade the rating?

The rating could be downgraded if (1) Shunde District's economic prospects and fiscal performance deteriorate, reducing its capacity to support the Company; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, weakened funding ability, or decreased government payments.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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