

CCXAP assigns first-time long-term credit rating of BBB_g- to Shouguang City Construction Investment Development Co., Ltd., with stable outlook.

Hong Kong, 1 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Shouguang City Construction Investment Development Co., Ltd. (“SGCC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of SGCC reflects Shouguang Government’s (1) strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shouguang Government’s strong capacity to support reflects Shouguang City’s status as one of the top 100 counties in China. It has rapid economic growth and good fiscal metrics.

The rating also reflects the local government’s very high willingness to support, which is based on the Company’s (1) dominant role in local infrastructure construction, operation of land resources, and provision of essential public services; (2) good track record of receiving government payments; and (3) good access to funding from banks and bond markets. However, the Company’s rating is constrained by its (1) high exposure to commercial activities; (2) increasing debt leverage driven by large capital expenditure; and (3) medium contingent risks resulting from external guarantees.

Corporate Profile

Founded in February 2008, SGCC is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Shouguang City, Weifang City, Shandong Province. In accordance with the economic development strategy and social development requirements of Shouguang City, it is entrusted by the local government to carry out public policy projects, including infrastructure construction, affordable and resettlement housing development, operation of land resources, as well as the provision of heat energy services. The Company also has commercial operations, including residential housing development, property leasing, production and sales of commercial concrete, as well as engineering construction. As of 30 June 2022, SGCC was wholly-owned and ultimately controlled by the Shouguang City State-owned Assets Operation Center.

Rating Rationale

Credit Strengths

Dominant role in local infrastructure construction, operation of land resources, and provision of essential public services. SGCC is one of the major LIIFCs in Shouguang City that undertakes city development and public projects as well as provision of utility services. The Company is the second largest LIIFC in Shouguang City, which is commissioned to carry out various key infrastructure construction and land resource operation projects that are crucial to local economic development and to provide public utility services that benefit the general public.

Good track record of receiving government payments. SGCC has a proven track record of receiving recurring support from the Shouguang Government, such as capital injections, proceeds from government bond issuance, free injections of operating state-owned assets, and subsidies. Given the Company's strategic importance in the region, we expect the Company will continue to receive government cash payments and allocations from proceeds of the provincial government's special purpose bonds to support its capital expenditure in public policy-related investments.

Good access to funding from banks and bond markets. SGCC has relatively good access to various sources of funding, including bank loans and onshore and offshore bond financing. Considering the Company's important status and key role in the local development of Shouguang City, we expect the Company to maintain access to stable funding from banks and bond markets.

Credit Challenges

High exposure to commercial activities. Apart from public-related activities, SGCC also engages in diversified commercial activities including real estate development, property leasing, production and sales of commercial concrete, and engineering construction. Although these activities could generate cash flow to support the Company's investments and debt servicing, they will inevitably expose the Company to more commercial and financial risks.

Increasing debt leverage driven by large capital expenditure. SGCC's total debt has increased with the continuous expansion of its businesses. The Company also has large investment plans in its diversified businesses including infrastructure construction, operation of land resources, supply of heat energy, and real estate development. We believe the Company's ongoing investment in real estate projects will be mostly funded by external debts, as it is more difficult to obtain direct financial support from the government for its commercial activities.

Medium contingent risks resulting from external guarantees. SGCC's credit profile is constrained by its relatively large external guarantees relative to its net assets. Relatively large guarantee exposure may increase SGCC's financial risks, which are caused by the credit risk of guarantees, especially for privately-owned enterprises during the economic downturn. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks.

Rating Outlook

The stable outlook on SGCC's rating reflects our expectation that Shouguang Government's capacity to provide support will remain stable, and the Company's characteristics, such as its business profile and financial risks and controls will remain unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Shouguang City's economic prospects and fiscal performance improve and its ability to support the Company increases; or (2) the Company's

characteristics change in a way that strengthens the local government's willingness to provide support, such as materially lowers the exposure to risky commercial activities and increases its public policy status.

What could downgrade the rating?

The rating could be downgraded if (1) Shouguang City'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 provide 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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http://www.ccxap.com/en/rating_services/category/6/

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