

## **CCXAP affirms Shangrao Innovation Development Industry Investment Group Co., Ltd.'s long-term credit rating at BBB<sub>g-</sub>, with stable outlook.**

Hong Kong, 29 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Shangrao Innovation Development Industry Investment Group Co., Ltd. (“SIIG” or the “Company”) at BBB<sub>g-</sub>. The rating outlook is stable.

The BBB<sub>g-</sub> long-term credit rating of Shangrao Innovation Development Industry Investment Group Co., Ltd. (“SIIG” or the “Company”) reflects (1) Shangrao Municipal Government’s strong capacity to support, and (2) the local government’s high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Shangrao Municipal Government’s capacity to support reflects its status as the fifth largest city in terms of economic strength in Jiangxi Province, with fast economic growth and moderate fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong position in public service provision in Shangrao Economic and Technical Development Zone (“ETDZ”), with good sustainability; (2) good track record of receiving government payments; and (3) good access to diversified funding channels.

### **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 SOEs 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 2022, 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**

#### **Strong position in public service provision in Shangrao ETDZ, with good sustainability.**

As the largest infrastructure construction entity in Shangrao ETDZ, the Company is responsible for infrastructure construction, water supply and sewage treatment projects in Shangrao ETDZ. As of 30 December 2021, the Company had 22 infrastructure construction and PPP projects under construction, with a total estimated investment of RMB11.0 billion, and an uninvested amount of RMB5.7 billion; the Company also had 17 infrastructure construction projects under planning, with a total investment of RMB2.1 billion. Overall, the infrastructure construction business is sustainable given considerable construction projects in the pipeline. However, they also exert great pressure on the Company’s capital expenditure.

**Good track record of receiving government payments.** SIIG has a good track record of receiving support from local government in terms of capital injection, asset injection, special funds, and subsidies, greatly increasing the financing stability and comprehensive competitiveness of the Company. In 2018, the Company received capital injection from Shangrao ETDZ Administrative Committee, and its registered capital increased from RMB0.5 billion to RMB7.0 billion. In 2022, the Company received capital injection from the government of RMB3.4 million. In terms of asset injection, Shangrao ETDZ Administrative Committee injected two companies, Jiangxi Heji Investment Co. Ltd. and Shangrao Economic and Technical Development Zone Financial Holdings Co. Ltd., to the Company in 2018. In addition, SIIG received a total of RMB0.9 billion in special funds and RMB1.2 billion in government financial subsidies from 2019 to 2021. In terms of infrastructure construction projects payments, the Company has received total payments of RMB5.7 billion in the same period.

### Credit Challenges

**Medium exposure to commercial activities, with certain industrial investment risks.** SIIG also engages in commercial activities, such as industrial investment, rental housing and metallic material business. We consider the Company's exposure to commercial businesses is medium, accounting for around 20% of its total assets. However, the industrial investment business entails certain investment risks, albeit showing signs of a downward trend. In addition, the industrial investment business mainly focuses on photovoltaic and automobile enterprises settled in Shangrao ETDZ, posing certain concentration risks. The long average investment cycle of the fund is susceptible to the policies and market condition, causing some uncertainty of the return. Although the risks from industrial investment business have gradually reduced to a manageable level given reduced scale of industrial investment and strengthened risk management of the fund investment, it is worth noting that the Company is still subject to certain investment risks.

**High debt leverage and moderate asset liquidity.** The Company's total debt increased from RMB29.4 billion at end-2019 to RMB43.4 billion at end-2022Q3, with a relatively high total capitalization ratio of 53.3%. In addition, SIIG's asset liquidity is considered moderate as reflected by its high proportion of assets with low liquidity and restricted assets. As of 30 September 2022, investment real estates, inventories, and total receivables accounted for 67.5% of total assets. The inventories mainly consist of development costs from construction projects and land reserves, while the receivables are mainly unreceived payments from local government, both with relatively low liquidity.

**Medium contingent liability risk from external guarantees.** SIIG has medium exposure to contingent liabilities. As of 30 September 2022, the Company's external guarantee amount was RMB3.8 billion, accounting for about 10% of its net assets. However, about 30% of the guarantees were provided to private enterprises, some of which are at operating risks, such as Hanteng Automobile Co., Ltd. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality.

## 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 local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increase in its strategic significance; increase in government payments; or improvement in debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

## 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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