

CCXAP assigns first time long-term credit rating of BBB_g- to Sheyang State-owned Assets Investment Group Co., Ltd., with stable outlook.

Hong Kong, 10 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Sheyang State-owned Assets Investment Group Co., Ltd. (“SYSI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of SYSI reflects the Sheyang County Government’s relatively strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Sheyang County Government’s capacity to provide support reflects Sheyang County’s status as one of the CCID Top 100 Counties in China, while its fiscal profile was modest.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership by the Sheyang County Government; (2) key role in infrastructure construction in Sheyang County; and (3) track record of receiving government support. However, the Company’s rating is constrained by (1) medium risk exposure to commercial activities such as property development and photovoltaic power generation; (2) high reliance on bank borrowing and non-standard financing; and (3) medium level of contingent risk.

Corporate Profile

Founded in 2015, SYSI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Sheyang County, focusing on medical and cultural infrastructure construction such as hospitals and schools. SYSI has a diversified business scope including infrastructure construction, photovoltaic power, property development, and trading. As of 30 April 2023, Sheyang County Government ultimately controlled the Company and indirectly held 100% shares of the Company through Jiangsu Qianhehu Investment Holding Group Co., Ltd. (“QHHI”).

Rating Rationale

Credit Strengths

Key role in infrastructure construction in Sheyang County. SYSI is one of the key LIIFCs in Sheyang County, responsible for local infrastructure construction particularly in medical and cultural fields. SYSI has completed several construction projects, including Sheyang County People’s Hospital Xingang City Branch, and Maternal and Child Health Hospital, which helps improve the level of medical and health services in the city.

Track record of receiving government support. The Company has received ongoing support from the Sheyang County Government, in terms of capital injections, debt exemption, and operating subsidies. For example, the local government injected capital of RMB120 million in cash into the Company in 2021, which substantially enhanced the capital strength of the Company.

Credit Challenges

Medium risk exposure to commercial activities such as property development and photovoltaic power generation. SYSI has developed diversified businesses such as property development, trading, and photovoltaic power. Some of such commercial activities are policy-driven such as photovoltaic power in order to promote the development of local industries. Based on our estimation, the Company had medium risk exposure to commercial activities.

High reliance on bank borrowing and non-standard financing. SYSI reported fast debt growth and a high reliance on bank borrowing and non-standard financing for its capital expenditure and debt repayment. Most of the loans were secured by assets or guaranteed by other state-owned enterprises in Sheyang County. Non-standard financing accounted for more than 40% of total debts with long terms but relatively high costs.

Medium level of contingent risk. SYSI's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2022, the Company had external guarantees of RMB1.6 billion, accounting for around 24.6% of its net assets. However, we believe that the contingent risk of the external guarantee is moderately controllable, considering that these local state-owned enterprises will receive support from the local government in a timely manner.

Rating Outlook

The stable outlook on SYSI's rating reflects our expectation that Sheyang County Government's capacity to provide support will remain stable, and the Company will maintain its key role in infrastructure construction in Sheyang County over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Sheyang County Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved financing ability and reduction in exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) Sheyang County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance or significantly increased exposure to risky 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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