

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Hebei Shunde Investment Group Company Limited, with stable outlook.**

Hong Kong, 11 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>+ to Hebei Shunde Investment Group Company Limited (“HBSD” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of HBSD reflects (1) Xingtai Municipal Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Xingtai Municipal Government’s capacity to support reflects Xingtai City’s status as one of the prefectural-level cities in Hebei Province, with relatively good economic foundations.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in the urban development of Xingtai City; (2) good track record of receiving government support; and (3) diversified funding channels. However, the rating is constrained by the Company’s (1) high financial leverage and increasing debt level driven by its large investment needs; and (2) moderate asset liquidity.

### **Corporate Profile**

Established in 2009, HBSD is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Xingtai City, responsible for urban development and construction, as well as the operation of state-owned assets in Xingtai City. The Company is primarily engaged in infrastructure construction and public utility services such as water supply, sewage treatment and heat supply. It also diversified its businesses into other commercial activities including trading, leasing and fund investments. As of 31 March 2023, the Company is fully and directly owned by the State-owned Assets Supervision and Administration Commission of Xingtai Municipal Government (“Xingtai SASAC”).

### **Rating Rationale**

#### **Credit Strengths**

**Important role in the urban development of Xingtai City.** HBSD is one of the key LIIFCs of Xingtai Municipal Government, responsible for the construction and operation of infrastructure and public utilities in Xingtai City. The Company had completed a number of large-scale projects since its establishment, including water plant construction, municipal road projects and affordable housing projects, which were important for the urbanization of Xingtai City. In addition, HBSD provides essential public utility services with strong regional monopolistic advantages in the city.

**Good track record of receiving government support.** HBSD has a good track record of receiving government support in various forms such as equity transfer, operating subsidies, and government payment for construction projects. Given its important position in the

development of Xingtai City, we expect the Company to receive government support in the next 12-18 months.

**Diversified funding channels.** The Company's diversified funding channels which include banks, domestic and offshore capital markets as well as non-standard financing may release the pressure on refinancing and capital expenditure. The Company has good access to the domestic capital market and has issued various products including MTNs, PPNs and ABS. For example, The Company issued a tranche of 3-year MTN with a coupon rate of 4.1% in July 2023 to raise RMB400 million. The Company also had manageable exposure to non-standard financing, which accounted for less than 10% of total debt as of 31 March 2023.

### Credit Challenges

**High financial leverage.** HBSD had a high debt burden given its high financial leverage. As of 31 March 2023, the total debt increased to RMB24.3 billion from RMB17.2 billion in 2020 and the financial leverage, measured by the total capital ratio, increased to 66.1% from 59.8% in 2020. We expect the Company to rely on external financing to fulfill its investment needs and its debt leverage to remain at a high level in the next 12-18 months.

**Moderate asset liquidity.** HBSD had moderate asset liquidity. As of 31 March 2023, the inventories accounted for around 25.5% of total assets and were mainly land transferred from the local government as well as construction costs of PPP projects and construction engineering, which were considered as low liquidity. In addition, a large amount of receivables which were mainly from the local government or related units also had certain cash occupations.

### Rating Outlook

The stable outlook on HBSD's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in the urban development of Xingtai City in the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the Xingtai Municipal 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 improved debt management and asset liquidity.

#### What could downgrade the rating?

The rating could be downgraded if (1) the Xingtai Municipal 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 reduced regional significance or deteriorated refinancing ability.

### 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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