

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>+ to Shandong Public Holdings Limited, with stable outlook.**

Hong Kong, 22 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>+ to Shandong Public Holdings Limited (“SDPH” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of SDPH reflects Jining Municipal Government’s (1) very strong capacity to support, and (2) very high willingness to support based on our assessment of the Company’s characteristics. Our assessment of Jining Municipal Government’s capacity to support reflects its status as the 6<sup>th</sup> largest prefecture-level city ranked by gross regional production (“GRP”) in Shandong Province over the past three years, with improving economic and fiscal strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong regional franchise in the public utility services of Jining City; (2) good access to diversified funding; and (3) solid track record of government support. However, the Company’s rating is constrained by its (1) high exposure to commercial activities; and (2) increasing debt burden driven by large capital expenditure.

### **Corporate Profile**

Founded in 1993, SDPH is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Jining City. The Company has a strong position in the public utility services of Jining City, including water supply, sewage treatment, and heat supply. It also conducts other businesses including surplus land quota transfer, engineering construction, and property development. As of 30 June 2023, the Company was wholly owned and controlled by the State-owned Assets Supervision and Administration Commission of Jining Municipal Government.

### **Rating Rationale**

#### **Credit Strengths**

**Strong regional franchise in the public utility services of Jining City.** SDPH is one of the major LIIFCs in Jining City under the control of Jining Municipal Government, and has a strong position in the public utility services in Jining City. It is responsible for water supply and sewage treatment in urban area of Jining City and the surrounding districts and counties. SDPH also has a dominant position in heat supply business in Jining City. It is the main provider of heat and industrial gas in the main urban area and the five surrounding districts and counties of Jining City.

**Solid track record of receiving government support.** As the urban operator of Jining City, SDPH serves an important public policy function and is strategically important to local social and economic development. The Company has a strong track record of receiving government support, mainly in operating subsidies, capital injections and specialized government bond. For

example, from 2020 to June 2023, the Company received government capital injection with a total value of RMB6.8 billion from Jining Municipal Government. We believe that given SDPH's significant position and its close relationship with the local government, the Company is expected to receive ongoing government support as needed in the next 12-18 months.

**Good access to diversified funding.** SDPH has a good access to diversified financing channels, including bank loans and bond issuance. The Company maintains long-term close relationships with policy banks, national joint-stock commercial banks and large state-owned banks. The Company is also an active issuer in the onshore debt capital market. As of 30 June 2023, the Company had a manageable exposure to non-standard financing, which accounted for less than 10% of total debt.

### Credit Challenges

**High exposure to commercial activities.** SDPH also engages in commercial activities such as engineering construction and property development businesses. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its public-policy businesses. The Company's exposure to commercial businesses is relatively high, accounting for more than 30% of its total assets, based on our estimation.

**Increasing debt burden driven by large capital expenditure.** SDPH shows rising debt burden owing to its expansion in the construction of engineering construction and property development projects over the past few years. At the same time, the total capitalization ratio, as measured by total debt to total capital, maintained at a relatively high level of 64.6%. We believe the Company's ongoing investment will be mostly funded by external debts, and its debt leverage will be maintained at a high level in the next 12 to 18 months.

### Rating Outlook

The stable outlook on SDPH's rating reflects our expectation that the Jining Municipal Government's capacity to provide support will be stable, and the Company's important role in the public utility services of Jining City will remain unchanged over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the Jining Municipal Government's capacity 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 lower exposure to risky commercial activities.

#### What could downgrade the rating?

The rating could be downgraded if (1) the Jining Municipal Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide 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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