

CCXAP assigns first-time long-term credit rating of A₉ to Suzhou SND Group Company Limited, with stable outlook.

Hong Kong, 27 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of A₉ to Suzhou SND Group Company Limited (“SNDG” or the “Company”), with stable outlook.

The A₉ long-term credit rating of SNDG reflects (1) Suzhou New District (“SND”) Government’s very 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 the SND Government’s capacity to support reflects SND’s good economic and fiscal strengths with steady growth. SND ranked among the top 20 national high-tech zones in China in 2022, with gross regional production (“GRP”) exceeding RMB170 billion.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership and direct management by the SND Government; (2) strong strategic importance in the development of SND; (3) solid government support such as ongoing capital injections and subsidies; and (4) good access to low-cost and stable funding. However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities, which mainly includes property development and financial investment; and (2) fast expansion on the debt scale that exerts management pressure.

Corporate Profile

Established in 1990, SNDG is the largest investment, financing and operating entity for the municipal development in Suzhou New District (also called Huqiu District), primarily focusing on infrastructure construction within and surrounding the SND. The Company has a diversified business scope including property development, industrial park construction, public utility services, commercial product sales, tourism, vibration testing equipment and other business operations such as property leasing, construction project contracting services and financial services. It carries out businesses mainly through its subsidiaries, including listed companies Suzhou New District Hi-tech Industrial Co., Ltd. (“SNDHI”, Stock Code: 600736.SH) and Suxin Joyful Life Services Co., Ltd. (Stock Code: 2152. HK). As of 30 June 2023, Suzhou Huqiu District People’s Government (“Huqiu District Government”) held 90.34% of its shares and the Jiangsu Provincial Department of Finance held the remaining 9.66%.

Rating Rationale

Credit Strengths

Strategic role in the development of SND. SNDG is the largest investment, financing and operating entity for municipal development in the SND, focusing on infrastructure construction business. The Company has been designated to undertake infrastructure construction projects, construction of resettlement housing in the SND, and provision of water supply and sewage treatment with a strong regional monopoly position. The Company also plays a vital role in promoting industrial development such as financial investment and construction of industrial

parks. In view of SNDG's strategic role in the development of local industries and social development, we believe that the potential substitution from other state-owned enterprises is relatively low and government support is very likely in the near future.

Solid government support such as ongoing capital injections and subsidies. SNDG has a good track record of receiving government support in various forms such as project allocation, operating subsidies, capital injections and government payments for construction projects. For example, in 2022, the local government injected RMB100 million in cash into the Company and agreed to convert the capital injected in the past year into registered capital, which increased its registered capital by RMB530 million in total. Given its strategic position in the development of SND, we expect the Company will continue to receive government support in the next 12-18 months.

Good access to low-cost and stable funding. SNDG has multiple low-cost financing channels through bank loans and bond issuances. The Company maintains a good relationship with large domestic banks. SNDG has a good track record in both offshore and onshore debt capital markets and actively issues innovative financial products. For example, the Company issued a tranche of seven-year corporate bond at a coupon rate of 3.38% to raise RMB700 million in July 2023. The Company had manageable exposure to nonstandard borrowing, which was less than 5% of total debt.

Credit Challenges

Medium exposure to commercial activities. SNDG diversified into other business segments such as property development, property leasing, financial investments, financial services, tourism, commercial product sales and vibration testing equipment production. Based on our assessment, its exposure to commercial activities is relatively large. Considering some activities that are associated with the Company's strategic role in the local industrial investment and economic development and its good operating track record, its risk exposure to commercial activities is considered medium.

Moderate debt management with fast expansion on the debt scale. SNDG has moderate debt management because of rapid debt growth mainly in its infrastructure construction and property development. Its total debt (including perpetual debts) increased notably to RMB101.3 billion as of 30 June 2023 from RMB61.2 billion as of 31 December 2020. As of the same date, its total capitalization ratio also increased gradually to 78.1%. We expect that SNDG's financial leverage will remain at a relatively high level because the Company has a large investment plan for projects in infrastructure construction and property development.

Rating Outlook

The stable outlook on SNDG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic position in the development of SND.

What could upgrade the rating?

The rating could be upgraded if (1) the SND 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 increased debt management and decreased risk exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the SND 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Kelly Liang
Credit Analyst
+852-2860 7127
kelly_liang@ccxap.com



Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656