

Credit Opinion

25 June 2025

Ratings	
Senior Unsecured Debt Rating	BBB _g ⁺
Long-Term Credit Rating	BBB _g ⁺
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Shangrao Urban Operation (Holding) Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Shangrao Urban Operation (Holding) Group Co., Ltd.'s long-term credit rating at BBB_g⁺, with stable outlook.

Summary

The BBB_g⁺ long-term credit rating of Shangrao Urban Operation (Holding) Group Co., Ltd. (“SUOG” or the “Company”) reflects Shangrao Municipal Government’s (1) very strong capacity to support, and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the Shangrao Municipal Government’s capacity to provide support reflects its 4th ranking in terms of economic strength in Jiangxi Province, with fast economic growth and moderate fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) pivotal comprehensive urban operation service provider in Shangrao City; (2) good track record of receiving government support, with the consolidation of Shangrao State-owned Farm Industry Investment and Development Co., Ltd. (“SSTI”); and (3) access to diversified financing channels.

However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities, such as the newly added agricultural business; (2) high debt leverage with relatively large short-term debt pressure; and (3) moderate asset quality.

The stable outlook on SUOG’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its important position as the major infrastructure construction and land development entity in Shangrao City.

Rating Drivers

- Pivotal comprehensive urban operation service provider in Shangrao City
- Increasing exposure to commercial activities, such as the newly added agricultural business
- Good track record of receiving government support, with the consolidation of SSTI
- High debt leverage with relatively large short-term debt pressure
- Moderate asset quality
- Diversified access to financing channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in Company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities and improving debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in Company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and deteriorated financing capability.

Key Indicators

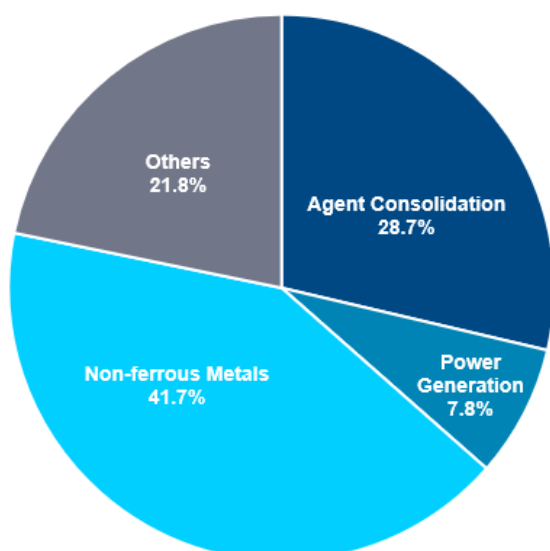
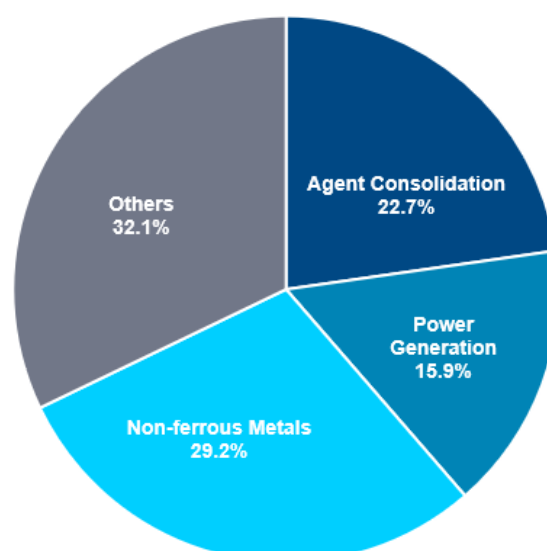
	2022FY	2023FY	2024FY
Total Asset (RMB billion)	129.8	136.1	184.6
Total Equity (RMB billion)	49.7	53.0	94.6
Total Revenue (RMB billion)	5.9	5.8	5.3
Total Debt/Total Capital (%)	59.0	57.8	43.9

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2020, SUOG is one of the most important local infrastructure investment and financing companies ("LIIFCs") in Shangrao City. The Company is mainly responsible for land development, resettlement housing construction, urban infrastructure construction and state-owned assets operation in Shangrao City as well as commercial businesses including self-operated projects construction, production and trading of aluminum, electricity generation, expressway operation, property sales, engineering construction and hotel management. In 2024, the Company consolidated SSTI into its financial statements, broadening its business scope to agricultural reclamation resources leasing, driving a significant expansion in asset scale and further strengthening its capital strength. As of 31 March 2025, the State-owned Assets Supervision and Administration Commission of Shangrao City ("Shangrao SASAC") was the ultimate controller of the Company holding 100% shares of the Company through Shangrao Investment Holding Group Co., Ltd. ("SIHG").

Exhibit 1. Revenue structure in 2024**Exhibit 2. Gross profit structure in 2024**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2025

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Shangrao Municipal Government has a strong capacity to provide support for the Company, given its 4th ranking in terms of economic strength in Jiangxi Province, with good economic growth and moderate fiscal profile.

Jiangxi Province is located in the central-southeastern part of China, along the southern bank of the middle and lower reaches of the Yangtze River. The province is rich in non-ferrous metal resources, and has formed national advanced manufacturing clusters such as copper-based new materials. Its pillar industries also include

electronic information, equipment manufacturing, and automotive sectors. Its economic strength improved steadily with gross regional product (“GRP”) increasing by 5.1% year-over-year (“YoY”) to RMB3.4 trillion, ranking 15th among all provinces in China. Its general budgetary revenue rose slightly from RMB306.0 billion in 2023 to RMB306.7 billion in 2024, with tax income accounting for approximately 63.5% of the general budgetary revenue over the past three years, reflecting moderate fiscal stability. However, Jiangxi Province faces a relatively heavy debt burden. In 2024, its government debt reached RMB1.5 trillion, accounting for around 44.0% of its GRP.

Shangrao City is located in the Yangtze River Delta Economic Area. As an important transport hub in China, Shangrao City has a convenient and advanced transportation network connecting major cities in China. Thanks to the promotion of pillar industries, the economic strength of Shangrao City continued to grow in the past year. In 2024, Shangrao City recorded a GRP of RMB372.1 billion, ranking the 4th among 11 prefecture-level cities in Jiangxi Province, with a solid economic growth rate of 5.7%. With the ongoing development of the regional economy, Shangrao City’s fiscal income has also increased. In 2024, its general budgetary revenue increased by 4.0% YoY to RMB28.2 billion, with tax income accounting for 67.0%, indicating moderate fiscal stability. However, the fiscal balance of Shangrao City is still weak, with a fiscal balance ratio of 33.8% in 2024, indicating high reliance on the income from the land market and the income transferred from the higher-tier government. Affected by depressed land market conditions. The revenue from government funds decreased from RMB3.4 billion in 2023 to RMB2.7 billion in 2024. During the same period, Shangrao City had an outstanding direct government debt balance of RMB157.1 billion, accounting for 42.2% of Shangrao City’s GRP. The local government debt scale is expanding at a relatively fast pace, and the overall regional debt pressure is relatively high taking into account the debt burden of local state-owned enterprises.

Exhibit 4. Key economic and fiscal indicators of Shangrao City

	2022FY	2023FY	2024FY
GRP (RMB billion)	331.0	340.2	372.1
GRP Growth (%)	5.1	6.7	5.7
General Budgetary Revenue (RMB billion)	25.1	27.1	28.2
General Budgetary Expenditure (RMB billion)	79.4	81.5	83.5
Local Government Debt (RMB billion)	111.8	132.8	157.1

Source: Statistics Bureau of Shangrao City, CCXAP research

Government’s Willingness to Provide Support

Pivotal comprehensive urban operation service provider in Shangrao City

There are four main state-owned assets operation entities in Shangrao City, each with a clear positioning in the development of the region. As a leading infrastructure construction entity and an essential comprehensive urban operation service provider in Shangrao City, SUOG has proactively driven the implementation of the local government’s key strategic plans for urban planning and municipal construction by undertaking a series of infrastructure and resettlement housing construction as well as land development projects in the region. Given its critical role in regional development, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

SUOG has undertaken numerous key projects through its major subsidiary, Shangrao City Construction Investment Development Group Company Limited (“SCID”), including infrastructure construction, resettlement housing, and land development, demonstrating regional exclusive operation and strong business

competitiveness. Given that the urbanization of Shangrao City has entered the advanced stage, we expect the number of infrastructure construction projects of the Company will gradually decrease, and the Company faces certain capital expenditure pressure brought by ongoing construction projects coupled with slow repayment progress.

SCID primarily engages in infrastructure construction operations through the agency construction model. The Company assumes responsibility for road, pipe networks and flood control landscaping projects in the urban area of Shangrao City. As of 31 December 2024, the Company had completed 8 key infrastructure construction projects with a total invested amount of RMB6.8 billion, and had received a repayment amount of RMB4.9 billion. Meanwhile, the Company had 8 projects under construction with a gross investment amount of RMB8.0 billion and an uninvested amount of RMB2.8 billion. The Company also had 8 infrastructure construction projects under planning with an estimated investment of RMB5.1 billion. Although the future investment amount is relatively large, funds from policy banks and special government bonds can alleviate part of the capital pressure.

Besides, the Company also undertakes resettlement housing construction projects under agency construction model. As of 31 December 2024, the Company had 15 resettlement housing projects under construction, with a total estimated investment amount of RMB11.8 billion and an uninvested amount of RMB3.8 billion, indicating large capital expenditure pressure. However, the Company has no proposed resettlement housing project, indicating that the business sustainability is moderate. Furthermore, the Company has only received the repayment of RMB1.1 billion from this business despite an invested amount of RMB8.0 billion and recognized revenue of RMB5.0 billion. It is confronted with fiscal balance risk because of a long investment payback cycle.

In addition, the Company undertakes land development projects in Shangrao City. As of 31 December 2024, the Company had invested RMB26.7 billion into 4 ongoing land development projects with a collected payment of only RMB2.0 billion, all of which were initiated prior to 2018 and entered into closing stages. The delays in completion are primarily due to slow progress in land acquisition and site clearance of collective rural land and forested/mountainous areas. Moreover, the Company plans to invest RMB1.6 billion for the next three years, exerting certain future capital expenditure needs. Consequently, the overall progress of project repayments is slow, necessitating close attention to the government's repayment schedule.

Increasing exposure to commercial activities, such as the newly added agricultural business

SUOG also engages in commercial activities, such as production and trading of aluminum, electricity generation, public transportation operation, product sales, expressway operation, property sales, and hotel management businesses. In addition, the Company's exposure to commercial businesses has increased since the injection of SSTI's equity from the local government in 2024, and its market-driven businesses accounted for around 40% of its total assets. We consider the Company's exposure to commercial businesses to be medium as most of the commercial businesses provide stable income and reasonable profit to the Company.

SUOG conducts production and trading of aluminum business via Fujian Minfa Aluminum Co Ltd ("Minfa Aluminum", stock code: 002578.SZ), which is the main income source of the Company. It appropriately hedges against aluminum price fluctuations through futures hedging. In 2024, mainly due to intensified competition in the aluminum processing industry and fluctuations in aluminum prices, the revenue from production and trading of business decreased from RMB2.8 billion in 2023 to RMB2.2 billion, accounting for 41.7% of the Company's total revenue, and the business's gross profit margin was stable at around 5.7%. Meanwhile, it has a notable decrease in downstream customer concentration with a more diversified client base, as the sales from the top five customers accounted for 18.8% of the total sales in 2024. However, it still has a high concentration risk regarding upstream suppliers as the top five suppliers accounted for 82.4% of the total procurement in 2024.

The energy and environmental sector represents a key development focus of SUOG, currently comprising two main businesses: photovoltaic power generation and waste treatment & power generation. In terms of photovoltaic power generation, as of 31 March 2025, the Company's photovoltaic power stations were mainly located in four districts and counties near Shangrao City, with a total installed capacity of 258.0 MW. The contribution of photovoltaic power business to the Company is low, accounting for only 5.0% of total revenue in 2024. Besides, this business segment is highly reliant on government subsidies and related policies for its revenue. The Company has received government subsidies of RMB343.0 million in total from 2022 to 2024. In terms of waste treatment & power generation, it generated RMB158.8 million in 2024 and RMB36.5 million in 2025Q1, respectively, supplementing the Company's income.

SUOG also engages in public transportation operation business in Shangrao City. At end-2024, it had 104 bus routes and 832 buses. However, due to significant vehicle depreciation, fuel costs, labor expenses, and maintenance costs, the business has suffered losses since 2022. Given the public welfare nature of this business, the local government provided subsidies to support its daily operations, and the Company received a total of RMB157.0 million from 2022 to 2024. Additionally, the Company engages in highway operation business through its subsidiary with a total of operating revenue of RMB154.0 million, providing supplementary income to the Company.

Meanwhile, SUOG also engaged in self-operated construction projects, such as hotel and port terminal. At-end 2024, the Company had 5 self-operated construction projects under construction with a total investment of RMB8.2 billion and an outstanding amount of RMB1.3 billion. Meanwhile, the Company had 4 projects under planning with an estimated amount of RMB450 million. The Company is expected to achieve fund balancing through future operating income, such as leasing income. However, the investment recovery cycle is long, making it more difficult to achieve fund balancing in a short period of time. Meanwhile, project construction funding mainly comes from bank loans and self-financing, and the relatively large scale of investment will bring more pressure on the capital expenditure of the Company.

In addition, the Company broadened its business scope to agricultural reclamation resource leasing after the injection of SSTI. In 2024, in accordance with relevant documents issued by the Shangrao SASAC, SSTI was incorporated into SCID's consolidation scope, while SCID became SSTI's actual controller. SSTI involves investment and development of agricultural and forestry resources and leasing of agricultural reclamation resources, with total assets of RMB59.7 billion and net assets of RMB56.1 billion at-end 2024. SSTI achieved operating income of RMB192.8 million and net income of RMB120.0 million in 2023, and operating income of RMB193.0 million and net income of RMB103.0 million in 2024.

The Company also participates in product sales, property sales, and hotel management businesses. These businesses contribute modestly to the Company's total revenue due to their relatively small operational scale.

Good track record of receiving government support, with the consolidation of SSTI

SUOG has a good track record of receiving support from the local government and shareholders, including capital injection, asset transfer, project payments and subsidies, which have significantly strengthened the Company's capital base and operational capabilities. From 2024 to 2025Q1, the Company received a total capital injection of RMB6.3 billion from the local government, substantially enhancing its capital strength. In addition to financial support, the local government has also injected land assets, the Shangwu Expressway and integrated transportation hub, sewage pipelines, and real estate properties. In 2024, SSTI was incorporated into the Company's consolidation scope, while SCID became SSTI's actual controller, which expanded the Company's business scope and profitability. Additionally, from 2024 to 2025Q1, SUOG received a total of

RMB780.4 million in government subsidies to support its future investments and debt repayment, but there is still a relatively large amount of outstanding payments, resulting in capital occupation. Given SUOG's critical strategic role in the region, we expect the Company to continue receiving government support in the future.

High debt leverage with relatively large short-term debt pressure

Due to ongoing capital expenditure for infrastructure construction projects, SUOG's total debt has grown and remained at a high level. From end-2023 to end-2024, the Company's total debt had increased from RMB72.1 billion to RMB74.0 billion. However, benefiting from strong government support, the Company's net assets increased significantly, leading to a substantial decline in its total capitalization ratio, dropping from 57.8% to 43.9% over the same period. In addition, the Company's short-term debt burden is still high with short-term debt to total debt ratio increasing from 33.1% at the end of 2023 to 34.0% at the end of 2024, and cash to short-term debt ratio was 0.1x as of 31 December 2024, indicating certain short-term debt servicing pressure. Considering the substantial capital expenditure requirements for its extensive pipeline of construction projects, we expect that the Company will rely on external financing to meet its capital expenditures and the total debt level will continue to increase, which will cause fund occupation due to slow project repayment progress.

Moderate asset quality

SUOG's assets are primarily composed of inventory, receivables, and other non-current assets, all with relatively low liquidity, total accounting for 75.5% of total assets as of 31 March 2025. Inventory mainly consists of infrastructure construction investments, while receivables primarily include uncollected project payments from the local government and state-owned enterprises, on-lending loans to county-level state-owned enterprises, and other non-current assets mainly represent the state farm resources of SSIT, which can bring supplementary rental income to the Company.

Besides, SUOG has low exposure to external guarantee. As of 31 March 2025, the Company's external guarantee amounted to RMB7.0 billion, representing about 7.4% of its net assets. The guarantees for Shangrao ETDZ and county-level LIIFCs amounted to RMB880.0 million, accounting for 12.6% of the total external guarantees. All these external guarantees were provided to local state-owned enterprises, with relatively low credit risks considering that they will receive support from the local government when needed.

Diversified access to financing channels

SUOG has a diversified range of financing channels, including bank borrowings, bond financing, and non-standard financing. As of 31 March 2025, it had obtained total credit facilities of RMB55.8 billion from diversified policy banks and major domestic commercial banks, with an available amount of RMB21.4 billion, indicating sufficient standby liquidity. As of 31 December 2024, around 39.4% of the Company's debt was provided by the onshore debt capital market with a total outstanding amount of RMB5.0 billion, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. Additionally, the Company and its subsidiary SCID also had 5 offshore bonds with a total outstanding amount of RMB1.5 billion and USD970.0 million as of 30 April 2025. It is necessary to keep track of the Company's refinancing situation in the debt capital market considering its large debt repayment pressure. In addition, the Company has a low exposure to non-standard financing, such as financial leasing, which accounted for around 9.3% of its total debt at end-2024.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national

governmental authorities. SUOG assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

SUOG is also exposed to social risks as it implements public policy initiatives by building public infrastructure in Shangrao Municipal. Demographic changes, public awareness and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. SUOG believes that it complies in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Structural Considerations

The rating of the senior unsecured bonds is equivalent to SUOG's long-term credit rating. We believe that government support will flow through the Company given its important role in comprehensive urban operation in Shangrao City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Exhibit 5. Peer Comparison

	Shangrao Urban Operation (Holding) Group Co., Ltd.	Shangrao City Construction Investment Development Group Company Limited
Long-Term Credit Rating	BBB _g +	BBB _g +
Shareholder	Shangrao Investment Holding Group Co., Ltd.	Shangrao Urban Operation (Holding) Group Co., Ltd. (98%); Jiangxi Provincial Administrative Assets Group Co., Ltd. (2%)
Positioning	One of the four state-owned assets operation entities in Shangrao City; Responsible for infrastructure construction, land development, resettlement housing construction in Shangrao City	Responsible for infrastructure construction, land development, resettlement housing construction in Shangrao City
Total Asset (RMB billion)	184.6	178.7
Total Equity (RMB billion)	94.6	93.1
Total Revenue (RMB billion)	5.3	5.1
Total Debt/Total Capital (%)	43.9	42.6

All ratios and figures are calculated using CCXAP's adjustments based on 2024FY financials.

Source: Company data, CCXAP research

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