

## Credit Opinion

28 March 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	stable

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## Shangrao Innovation Development Industry Investment Group Co., Ltd.

### Surveillance credit rating report

### CCXAP upgrades Shangrao Innovation Development Industry Investment Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

CCXAP has upgraded the long-term credit rating of Shangrao Innovation Development Industry Investment Group Co., Ltd. ("SIIG" or the "Company") to BBB<sub>g</sub> from BBB<sub>g</sub><sup>-</sup>, with stable outlook.

The rating upgrade is based on the improving regional strength, which strengthens the local government's capacity to support the Company. It also reflects the policy role of the Company, as the key urban infrastructure development platform in Shangrao Economic and Technical Development Zone ("Shangrao ETDZ").

The BBB<sub>g</sub> long-term credit rating of Shangrao Innovation Development Industry Investment Group Co., Ltd. reflects (1) Shangrao Municipal Government's strong capacity to support, and (2) the local government's high willingness to support, based on our assessment of the Company's characteristics. Our assessment of Shangrao Municipal Government's capacity to support reflects its fifth 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 support, which is based on the Company's (1) leading position in infrastructure construction and utility services in Shangrao ETDZ; (2) good sustainability of public policy businesses; and (3) good track record of receiving government payments. However, SIIG's rating is constrained by its (1) increasing exposure to commercial activities, with certain industrial investment risks; (2) high debt leverage and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees

The stable outlook on SIIG'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 of urban infrastructure development platform of Shangrao City and Shangrao ETDZ.

## Rating Drivers

- Leading position in infrastructure construction and utility services in Shangrao ETDZ
- Good sustainability of public policy businesses
- Good track record of receiving government payments
- Increasing exposure to commercial activities, with certain industrial investment risks
- High debt leverage and moderate asset liquidity
- Medium contingent liability risk from external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increase in its strategic significance; increase in government payments; or improvement in debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) the local 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 decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	75.3	81.6	87.4	93.2
Total Equity (RMB billion)	33.6	36.9	39.1	40.3
Total Revenue (RMB billion)	4.0	7.8	9.5	6.1
Total Debt/Total Capital (%)	52.4	52.7	52.4	55.2

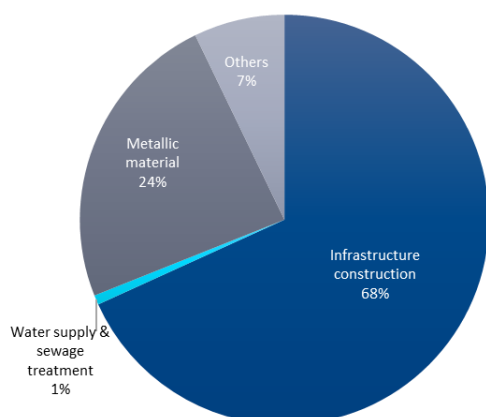
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

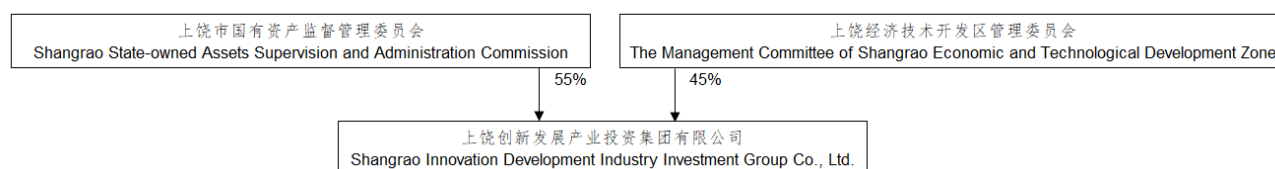
Founded in 2015, SIIG, previously known as Shangrao Economic and Technical Development Zone State-owned Capital Operation Co., Ltd., is one of the largest financing and investment entities in Shangrao City. The Company mainly engaged in infrastructure construction, industrial investment, water supply and sewage treatment businesses in Shangrao ETDZ. As of 30 September 2023, Shangrao State-owned Assets Supervision and Administration Commission ("Shangrao SASAC") was its ultimate controller and held 55% of the Company's stake, while the Management Committee of Shangrao ETDZ held the remaining 45%. The Company had paid-in capital of RMB7.0 billion as of the same date.

## Exhibit 1. Revenue structure in 2023Q3



Source: Company information, CCXAP research

## Exhibit 2. Shareholding and organization chart as of 30 September 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

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

Shangrao City is a prefecture-level city located in the northeast of Jiangxi Province. The economic strength of Jiangxi Province lies at middle level among all provinces in China. In 2023, Jiangxi Province's Gross Regional Product ("GRP") reached RMB3.2 trillion, ranking 15<sup>th</sup> among all provinces in China, with a year-on-year ("YoY") increase of 4.1%. Its general budgetary revenue increased from RMB294.8 billion in 2022 to RMB306.0 billion in 2023, as a result of a significant increase in tax revenue to RMB 202.2 billion with a relatively high YoY growth rate of 13.0%.

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 dual promotions of agriculture and industrial sector, the economic strength of Shangrao City continued to grow in the past year. In 2023, Shangrao City recorded GRP of RMB340.2 billion, ranking the fifth among 11 prefecture-level cities in Jiangxi Province, with an annual growth of 6.7%. With the ongoing development of the regional economy, Shangrao City's fiscal income has also increased. In 2023, its general budgetary revenue increased by 7.9% YoY to RMB27.1 billion, with tax income accounting for 67.8%, indicating a moderate fiscal stability. However, the fiscal balance of Shangrao City is still weak, with a general budgetary revenue/general

budgetary expenditure ratio of 33.2% in 2023. During the same period, Shangrao City had an outstanding direct government debt balance of RMB132.8 billion, accounting for 39% of the Shangrao City's GRP.

### Exhibit 3. Key Economic and Fiscal Indicators of Shangrao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	304.4	331.0	340.2
GRP Growth (%)	9.0	5.1	6.7
General Budgetary Revenue (RMB billion)	23.6	25.1	27.1
General Budgetary Expenditure (RMB billion)	75.2	79.4	81.5
Local Government Debt (RMB billion)	86.9	111.8	132.8

Source: Statistics Bureau of Shangrao City, CCXAP research

Shangrao ETDZ, located in the west of Shangrao City Center, was established in 2001 and promoted to a National Economic and Technical Development Zone in 2010. It covers an area of 207 square kilometers ("km<sup>2</sup>"), with planning built-up industrial area of 104 km<sup>2</sup>, and has a total population of over 126 thousand and over 3,000 registered companies. Moreover, Shangrao ETDZ has formed a "3+N" industrial pattern, including photovoltaic, optical, automobile, biomedical, and Beidou satellite navigation sectors. In fact, Shangrao ETDZ is the national photovoltaic and optical high-tech industrialization base, converging about 490 industrial enterprises and 143 high-tech enterprises such as Jinko Energy, Phoenix Optics and Great Wall Motor. Benefiting from ongoing development of pillar industries, Shangrao ETDZ achieved fast economic growth in recent years. The total revenue of industrial enterprises in Shangrao ETDZ increased from RMB203.3 billion in 2022 to RMB240.6 billion in 2023 with a large YoY growth rate of 25.6%. In addition, Shangrao ETDZ's general budgetary revenue increased by 25.4% YoY to RMB1.0 billion in the first half of 2023, indicating strong economic vitality of Shangrao ETDZ. In 2023, it has 117 contracted industrial projects with capital of RMB37.5 billion.

### Government Willingness to Provide Support

#### Leading position in infrastructure construction and utility services in Shangrao ETDZ

As the largest infrastructure construction entity in Shangrao ETDZ, SIIG plays a vital role in public policy businesses in the region. Entrusted by the Management Committee of Shangrao ETDZ, the Company undertakes public projects including infrastructure construction, water supply, sewage treatment, and shanty town renovation, which provide significant strategic importance for the government and benefits to the local social and economic development. Considering its strategic importance in undertaking public-policy projects in Shangrao ETDZ, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

#### Good sustainability of public policy businesses

SIIG has sufficient project reserves, ensuring its business sustainability. It conducts infrastructure construction projects through its subsidiaries under entrusted construction, PPP, self-construction and self-operated, and government purchase service models. As of 31 March 2023, the Company had 29 infrastructure construction and PPP projects under construction, with a total estimated investment of RMB18.2 billion, and an uninvested amount of RMB10.7 billion. The Company also had 9 infrastructure construction projects under planning, with a total investment of RMB3.5 billion. Upon completion of infrastructure construction projects, the entrusting parties will settle with the Company based on investment costs plus a certain percentage of markup. Meanwhile, the two PPP projects will generate income during the operation period. The sufficient project reserves

demonstrated the sustainability of the Company's public-policy businesses, but could exert great pressure on the Company's capital expenditure.

The Company also participates in shantytown renovation projects under government purchase service model. As of 31 March 2023, the Company had one completed project with a total invested amount of RMB1.7 billion and receives yearly repayment of totaling RMB2.6 billion until December 2043.

SIIG is the sole entity to provide water supply and sewage treatment services in Shangrao ETDZ. As of 30 September 2023, the Company had two water supply plants and one sewage treatment plant, with a daily water supply capacity of 150 thousand tons and a daily sewage treatment capacity of 80 thousand tons respectively, serving around 45.2 thousand households in Shangrao ETDZ. The Company plans to expand its water supply plants to meet the increasing water demand in Shangrao ETDZ, which is expected to increase its related revenue. Due to the public welfare nature of the business, the local government has provided subsidies and special bonds to support its daily operation and project construction. In addition, the Company's sole status in this business can ensure the business sustainability and stability.

### **Increasing exposure to commercial activities, with certain industrial investment risks**

We consider SIIG have medium exposure to commercial activities, such as industrial investment, rental housing, metallic material business and self-operated projects construction, accounting for around 20% to 25% of its total assets. These activities provide supplementary income to the Company but exert certain funding and business risks, especially the investment risks from industrial investment business.

SIIG is positioned to be an important industrial investment entity to promote the development of pillar industries in Shangrao City. It engages in industrial investment business by ways of fund investment, direct lending, and financial leasing. As of 30 September 2023, the Company had invested in 4 industrial funds, with a total investment of RMB4.9 billion and an uninvested amount of RMB1.5 billion, which mainly focus on automobiles, photovoltaics and biomedical industries, posing certain industrial concentration risks. Affected by deteriorating operation performance of the invested companies, the fund investment's dividend income has shown a downward trend in recent years. The Company also provides loans to enterprises settled in Shangrao ETDZ through direct lending and debt investment to obtain interests and leasing fee. As of 30 September 2023, the total outstanding lending amount was about RMB11.1 billion without overdue loans, most of which were provided to private-owned enterprises with credit enhancement measures. However, some of the private-owned enterprises, such as Jiangxi Star Energy Technology Co., Ltd. and Jiangxi Yiwei Automobile Manufacturing Co., Ltd., were involved in litigations due to poor business conditions brought by industry downturn, raising uncertainties over the fund collection. In addition, the Company no longer engages in entrusted loan business since 2021. As of 30 September 2023, the Company's subsidiary had an overdue entrusted loan of RMB300 million. The Company has taken litigation preservation measures and received land and properties assets with total estimated value of RMB667 million for asset revitalization to offset the overdue loan. Overall, as the investment cycle is long and the dividend income is susceptible to the policies and market condition, there is uncertainty in the cash collection and investment return.

SIIG participates in the construction of rental housing and factories under self-operated model, which are mainly leased out after completion for fund balancing. As of 31 September 2023, the Company owned leasable rental housing of 1.9 million square meters ("sqm") and factories of 3.4 million sqm, with moderate occupancy rate of 41.3%. We expect the rental housing business can generate supplementary income to the Company with increasing leasable areas in the future, but it is constrained by its relatively small business scale. As of 31 March 2023, the Company had 11 self-operated projects under construction or under planning, with total estimated

investment of RMB6.2 billion and uninvested amount of RMB3.4 billion. Given the large investment amount of self-operated projects, we believe the Company may face certain capital expenditure pressure, and there is uncertainty in terms of investment returns because future operations of self-operated projects are subject to local industry development.

The Company broadened its business scope to metallic material sales business in 2021, which became an important income driver of the Company and accounted for 23.9% of its total revenue in 2023Q3. In 2023Q3, sales of the top 5 clients and purchases from the top 5 suppliers accounted for around 39.4% and 72.4% of total sales and purchases, respectively. Moreover, the average gross profit margin of this business sector was as low as 1.4% between 2021 and 2023Q3, but could be partially relieved by tax refunds and industrial support funds. From 2021 to 2022, the Company's metallic material business received value-added tax refunds and industrial support funds totaling RMB0.6 billion.

### **Good track record of receiving government payments**

SIIG has a good track record of receiving support from local government in terms of capital injection, asset injection, special funds, project repayments and subsidies, greatly increasing the financing stability and comprehensive competitiveness of the Company. In 2022, the Company received capital injections of RMB3.4 million from the Management Committee of Shangrao ETDZ. In terms of asset injections, the Management Committee of Shangrao ETDZ injected property assets of RMB0.1 billion in 2022 to the Company, consolidating its business foundation and enhancing its business scope. In addition, SIIG has received total project payments of about RMB5.8 billion from the local government for its infrastructure construction projects in 2022. The Company also regularly received government subsidies for its public policy projects with a total amount of RMB1.6 billion and special funds with a total amount of RMB0.2 billion from 2020 to 2023Q3. Given SIIG's important role in the region, we expect the Company will continue to receive support from local government in the future.

### **High debt leverage and moderate asset liquidity**

SIIG has a moderate debt growth during past three years along with the expansion in business scale and continuous investment in construction projects. The Company's total debt increased from RMB43.4 billion at end-2022Q3 to RMB49.6 billion at end-2023Q3, with a relatively high total capitalization ratio of 55.2%. In addition, the Company has a relatively high short-term debt servicing pressure, as reflected by its cash to short-term debt ratio of 0.4x and the short-term debt to total debt ratio of 30.4% at end-2023Q3. We expect the Company's debt leverage to remain at a high level in the next 12 to 18 months, given its large capital expenditure needs for its extensive construction projects in the pipeline.

In addition, SIIG's asset liquidity is considered moderate. As of 30 September 2023, the Company's inventories, investment property, and total receivables accounted for 59.6% of total assets. The inventories mainly consist of development costs from construction projects and land reserves, while the receivables are mainly unreceived payments from local government, both of which are considered low liquidity. Meanwhile, The Company had a relatively large amount of restricted assets totaling RMB29.7 billion, which accounted for 31.8% of its total assets as of 30 September 2023, consisting mainly of investment real estates. Nevertheless, it has investment properties with a value of RMB26.8 billion for leasing, providing stable supplementary income to the Company.

### **Diversified access to funding channels**

The Company's large investment needs can be mitigated by its diversified financing channels. The Company has access to various sources of funding, including bank loans, onshore and offshore bond financing and non-standard financing. As of 30 September 2023, it had total credit facilities of approximately RMB42.8 billion, with unused portion of RMB19.8 billion, indicating sufficient liquidity buffer. The Company also has a good track record for fund-raising activities in debt capital markets. As of 30 September 2023, the Company had 18 onshore and 2 offshore outstanding bonds, with total outstanding amount of RMB13.5 billion and USD164 million, respectively. In addition, the Company's exposure to non-standard financing is low, accounting for around 5% of total debt financing as of 30 September 2023. Considering relatively large capital expenditure of its infrastructure construction projects, we expect the Company will continue to rely on external financing.

### **Medium contingent liability risk from external guarantees**

SIIG has medium exposure to contingent liabilities. As of 30 September 2023, the Company's external guarantee amount was RMB4.7 billion, accounting for about 11.6% of its net assets. Around 88% of the external guarantees were provided to local state-owned enterprises ("SOEs") in Shangrao City and the remaining external guarantees were provided to local private-owned enterprises. We estimate most of these local SOEs are likely to be supported by the local government when necessary, so that contingent risk would be controllable.

### **ESG Considerations**

SIIG assumes environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, SIIG has played a crucial role in the social welfare of Shangrao City by involving the construction of infrastructure construction shantytown renovation and water supply projects.

In terms of corporate governance, SIIG's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, reflecting its public-policy role and status as a government-owned entity.

### **Rating Methodology**

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

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