

Credit Opinion

29 May 2024

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

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Sheyang State-owned Assets Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Sheyang State-owned Assets Investment Group Co., Ltd.'s long-term credit rating at BBB_g-, with a stable outlook.

Summary

The BBB_g- long-term credit rating of Sheyang State-owned Assets Investment Group Co., Ltd. ("SYSI" or the "Company") reflects (1) the Sheyang County Government's strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the Sheyang County Government's capacity to provide support reflects Sheyang County's status as one of the CCID Top 100 Counties in China, while its fiscal profile is modest.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) full ownership by the Sheyang County Government; (2) key role in infrastructure construction in Sheyang County; and (3) track record of receiving government support.

However, the rating is constrained by the Company's (1) medium risk exposure to commercial activities such as property development and photovoltaic power generation; (2) high reliance on bank borrowing and non-standard financing; and (3) medium level of contingent risk.

The stable outlook on SYSI's rating reflects our expectation that Sheyang County Government's capacity to provide support will remain stable, and the Company will maintain its important position in Sheyang County over the next 12-18 months.

Rating Drivers

- Key role in infrastructure construction in Sheyang County
- Medium risk exposure to commercial activities
- Track record of receiving government support
- High reliance on bank borrowing and non-standard financing
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Sheyang County Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as reduced exposure to risky commercial activities or improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Sheyang County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced strategic significance, deteriorated debt management or increased contingent risk.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	14.1	15.9	16.1	17.1
Total Equity (RMB billion)	5.4	6.5	6.6	6.3
Total Revenue (RMB billion)	1.5	1.6	1.4	0.9
Total Debt/Total Capital (%)	47.7	47.3	43.4	49.8

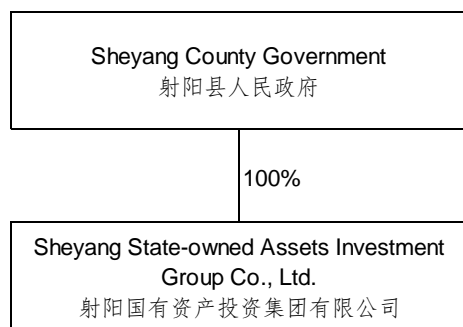
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

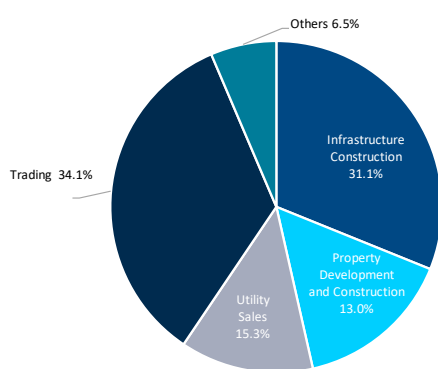
Established in 2015, SYSI is one of the key local infrastructure investment and financing companies ("LIIFCs") in Sheyang County, focusing on medical and cultural infrastructure construction such as hospitals and schools. In addition, SYSI has a diversified business scope including engineering construction, property development, photovoltaic power generation, and trading. In August 2023, the Company's equity was transferred from Jiangsu Qianhehu Investment Holding Group Co., Ltd ("QHHL") to Sheyang County Government, thereby the Sheyang County Government changed from indirect holding to direct holding.

Exhibit 1. Shareholding chart as of 30 September 2023



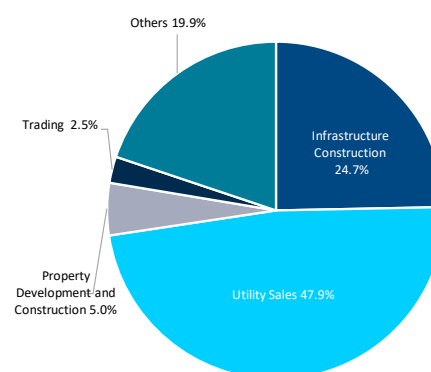
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Sheyang County Government has strong capacity to provide support to the Company, given its status as one of the CCID Top 100 Counties in China. However, the government's capacity to provide support is constrained by its debt profile and modest fiscal profile.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP for the same period was RMB150,487, ranking first among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province with a good economic foundation. Its pillar industries include auto parts, machinery, textiles, and chemical industry. Yancheng City is undergoing an economic transition and is developing emerging industries such as high-tech electronic manufacturing, big data, new energy, and intelligent manufacturing, which will help support sustainable economic growth in the long run. From 2021 to 2023, Yancheng City's economic strength improved steadily with GRP increasing to RMB740.0 billion from RMB661.7 billion, ranking 8th among all prefecture-level cities in Jiangsu Province. At the same time, Yancheng Municipal Government reported a general budgetary revenue of RMB48.3 billion, of which tax revenue accounted for around 70.7%, representing good fiscal quality. However, the fiscal balance ratio

(calculated by general budgetary revenue over general budgetary expenditure) remained at a moderate level, with an average ratio of 41.2% over the past three years. As of end-2023, Yancheng Municipal Government's outstanding debt amounted to RMB165.5 billion, accounting for about 22.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Yancheng City

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.0
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	109.4	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Statistics Bureau of Yancheng City, CCXAP research

Sheyang County is a county-level city under the jurisdiction of Yancheng City. Sheyang County is one of the Top 100 counties in China released by the CCID Consulting County Economic Research Center, and is also the county with the largest sea area in Jiangsu Province. Sheyang County has formed several core industries, including new energy and equipment, electronic information, and high-end textiles. Sheyang County's economic strength continuously improved over the past three years. Its GRP increased steadily to RMB74.0 billion in 2023, with a YoY increase of 6.4%. The general budgetary revenue reached RMB3.3 billion in 2023, of which tax revenue, a relatively stable income source, represented 73.0%. However, the Sheyang County Government's self-sufficiency remained relatively weak with an average fiscal balance ratio of 32.0% over the past three years, reflecting a high reliance on fiscal support from the upper-tier government to balance its fiscal budget. Its outstanding government debt amounted to RMB18.7 billion at end-2023, accounting for around 25.3% of GRP.

Exhibit 5. Key economic and fiscal indicators of Sheyang County

	2021FY	2022FY	2023FY
GRP (RMB billion)	66.3	71.0	74.0
GRP Growth (%)	8.1	4.1	6.4
General Budgetary Revenue (RMB billion)	3.4	3.1	3.3
General Budgetary Expenditure (RMB billion)	10.3	10.1	10.0
Local Government Debt (RMB billion)	17.5	17.7	18.7

Source: Statistics Bureau of Sheyang County, CCXAP research

Government's Willingness to Provide Support

Key role in infrastructure construction in Sheyang County

SYSI is one of the key LIIFCs in Sheyang County, responsible for local infrastructure construction particularly in medical and cultural fields. The Company undertakes infrastructure construction in Sheyang County mainly under the agency construction model. The local government would make payments to the Company based on the actual cost plus a markup in return upon completion, generally around 15%. However, the repayment progress was relatively lagging. As of 30 September 2023, SYSI has completed 7 key construction projects with a total planned investment of RMB2.5 billion and an actual investment amount of RMB1.5 billion, including Sheyang County People's Hospital Xingang City Branch, Maternal and Child Health Hospital, and Cultural Palace. The difference between the planned and actual investment amount is due to the timing of the settlement. As the investment amount is being paid gradually in installments, some of the payments have not yet been settled as of the end of September 2023. Such infrastructure helps improve the level of medical and health services in the city. As of 30 September 2023, the Company had an Infectious Disease Prevention and Control

Ward under construction, with a total planned investment of RMB55.0 million and an outstanding amount of RMB54.0 million. In accordance with the functional requirements of the Infectious Disease Prevention and Control Ward, an independent infectious disease area will be built with 100 beds. In the meantime, there was one project under planning with a total estimated investment of RMB17.0 million.

Sheyang County Government has reformed and consolidated its state-owned assets and layout of state-owned enterprises in recent years. There are several main LIIFCs in Sheyang County including the Company, QHHI, QHHI's subsidiary Sheyang Urban Construction and Development Group Co., Ltd., Sheyang Urban Investment Development Co., Ltd ("SYUI"), as well as Sheyang Coastal Investment Co., Ltd. The Company's position as the key LIIFC for medical and cultural infrastructure remained unchanged. Moreover, SYSI's management team is also responsible for the operation and management of another LIIFC in Sheyang County, namely SYUI. SYSI will continue undertaking infrastructure construction projects according to the planning of the local government in the future, but the business sustainability is adversely affected by its small project reserves.

Medium risk exposure to commercial activities

SYSI has developed diversified businesses such as property development, trading, and photovoltaic power. Some of such commercial activities are policy-driven, such as photovoltaic power generation, in order to promote the development of local industries. The Company's risk exposure to commercial activities is considered medium, based on our assessment, given the local government has provided financial support to some of the Company's commercial projects.

SYSI participates in real estate development business through its subsidiaries for the construction and sales of commercial housing. In October 2023, the Company transferred its shareholding of Sheyang Guotou Real Estate Co., Ltd, one of the operating entities of the real estate development business, without compensation to SYUI, which may hinder the expansion of its property development business. The sales of its completed project, Julongfu North Garden got off slowly under the sluggish market conditions. As of 30 September 2023, it achieved a total sales amount of RMB650 million and left some office buildings unsold, part of which may be used for lease to accelerate the progress of sale in the future. At the same time, the Company had 2 projects under construction, with a total planned investment of RMB1.9 billion and an outstanding amount of RMB1.0 billion, and had 2 projects under planning with a total estimated investment amount of RMB1.4 billion, which may put a certain capital expenditure pressure on the Company. In addition, as the profits and sales progress of these commercial property projects are highly subject to changes in the property market, the Company is exposed to higher business and financial risks during the current downturn of the Chinese real estate market.

SYSI is engaged in the photovoltaic power generation business through its subsidiary, generating sound revenue and gross profit over the past few years. The power stations are located dispersed and types of power stations are various. In addition, the Company sells electricity directly to the State Grid, which could help mitigate business risk. As of 30 September 2023, the Company held 43 photovoltaic power stations in Jiangsu, Shanxi, and Liaoning Province, including four types of photovoltaic power stations: water-floating, complementary of fishery and photovoltaic, complementary of agricultural and photovoltaic, and rooftop distributed photovoltaic power stations. The installed capacity of the photovoltaic power station increased from 246.9MW at the end of 2022 to 256.3MW as of 30 September 2023. Most of its power stations enjoys national subsidies therefore generate a high gross profit margin in this business segment. Under the national "Double Carbon" goal, Sheyang County is one of the pilot counties promoting the distributed photovoltaics industry in Jiangsu Province. As of 30 September 2023, the Company had plans to install 46.8MW power stations with a total investment of RMB177.0 million. However, as the newly constructed photovoltaic power stations are not

eligible for national subsidies, the high gross profit margin may not be able to maintain in the future.

Furthermore, SYSI takes part in trading business through its subsidiary, mainly including the sales of agricultural products. The profit margin of this sector's business has been low. For the first three quarters of 2023, the sales of agricultural products generated revenue of RMB2.9 million, accounting for 3.1% of the total revenue, with a low gross profit margin of 0.8%. Since February 2022, the Company has terminated its coal trading business due to the financial distress of its downstream clients. As of 30 September 2023, there were overdue receivables from Xingyi Shangcheng Power Generation Co., Ltd. ("XYPG"), a state-owned enterprise in Qianxinan Prefecture. As XYPG and its shareholders are involved in multiple sales contract disputes and loan contract litigations, the Company faces credit risk as the receivables may become bad debt. As of 30 September 2023, the book value of receivable from XYPG was RMB121.0 million.

Track record of receiving government support

SYSI serves an important public policy function in medical and cultural infrastructure construction and is important to the economic and social development of Sheyang County. The Company has received ongoing support from the Sheyang County Government, in terms of capital injections, debt exemption, and operating subsidies. In 2021, Sheyang County Government injected various assets totaled to RMB525.0 million and cash of RMB120.0 million into the Company. In 2022, the local government further injected capital of RMB85.0 million in cash into the Company, which substantially enhanced the capital strength of the Company. In addition, from 2020 to 2023Q3, the Company received a total of RMB430.0 million in financial subsidies from the local government. Furthermore, the Company has received payments from the local government for its infrastructure construction projects as well as national subsidies for its photovoltaic power business. However, government payments are highly subject to the local government's fiscal budget. Given the Company's important position in Sheyang County, we believe that SYSI will receive ongoing support from the local government.

High reliance on bank borrowing and non-standard financing

SYSI's debt level has fluctuated in recent years, with an increasing overall trend. Due to the transfer out of the shareholding of Jiangsu Sheyang Rice Group Co., Ltd., the Company's total debt was reduced in the year 2022, however, the debt level has rebounded since 2023. As of 30 September 2023, the Company's total debt increased to RMB6.2 billion from RMB5.1 billion as of the end of 2022. Its financial leverage, measured by the total capitalization ratio, also fluctuated to increase in recent years and reach 49.8% as of 30 September 2023, compared to 43.4% at the end of 2022. SYSI's financing channels are relatively limited compared to its peers, in Sheyang County. As of 30 September 2023, SYSI's total debt mainly consists of bank borrowing (60.1%) and non-standard financing (39.9%). The Company's portion of non-standard financing remained at a relatively high level. Non-standard financing which mainly consists of financial leases, has a long tenor but relatively high cost. The unutilized facilities amount from the bank amounted to around RMB250.0 million at the same time. In addition, most of the loans were secured by assets or guaranteed by other state-owned enterprises in Sheyang County.

SYSI's total debt was mainly long-term borrowing, however, its short-term debt portion was relatively high. As of 30 September 2023, the short-term debt represented 44.8% of the total debt and its cash-to-short-term debt ratio was 0.5x, indicating that its cash balance was insufficient to cover its short-term debt. At the same time, the receivables from the local government arising from construction projects were RMB1.3 billion. With the slow payment process from the local government and ongoing investment needs from project construction, we expect that the Company will rely on external financing and the financial leverage may increase in the next 12 to 18 months.

Medium level of contingent risk

The Company remained medium exposure to contingent liabilities, which could potentially increase its repayment obligations. As of 30 September 2023, the total amount of external guarantees dramatically increased to RMB5.0 billion from RMB1.6 billion as of 30 September 2022, accounting for 78.6% of SYSI's net assets, which exposes the Company to substantial contingent liabilities. There were RMB1.8 billion in guarantees provided to Sheyang Culture and Tourism Industry Group Development Co., Ltd., and RMB776.0 million provided to Sheyang County Traffic Control Urban Renewal Co., Ltd., respectively. All the external guarantees were provided to state-owned enterprises in Sheyang County. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks, which are negative to its credit quality. However, we believe that the contingent risk of the external guarantee is moderately controllable, considering all of the external guarantees are provided to local state-owned enterprises.

ESG Considerations

SYSI assumes environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

SYSI bears social risks as it implements public policy initiatives by building public infrastructure in Sheyang County. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

SYSI's governance considerations are also material as the Company is subject to oversight by the Sheyang County Government and must meet several reporting requirements, 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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