

Credit Opinion

6 September 2024

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

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Hebei Shunde Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Hebei Shunde Investment Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+

 long-term credit rating of Hebei Shunde Investment Group Company Limited ("HBSD" or the "Company") reflects (1) Xingtai Municipal Government's very 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 Xingtai Municipal Government's capacity to support reflects Xingtai City's status as one of the prefectural-level cities in Hebei Province, with relatively good economic and industrial foundations.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in the urban development and public services of Xingtai City; (2) good track record of receiving government support; and (3) diversified funding channels.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high financial leverage and increasing debt level driven by its large investment needs; and (3) moderate asset liquidity.

The stable outlook on HBSD's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in the urban development and public services of Xingtai City in the next 12-18 months.

Rating Drivers

- Important role in the urban development and public services of Xingtai City
- Good track record of receiving government support
- Medium exposure to commercial activities
- High financial leverage and moderate asset liquidity
- Diversified funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xingtai Municipal 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 improved debt management and asset liquidity or decreased exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Xingtai Municipal 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.

Key Indicators

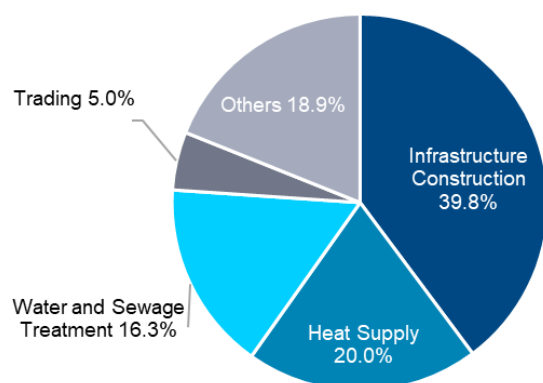
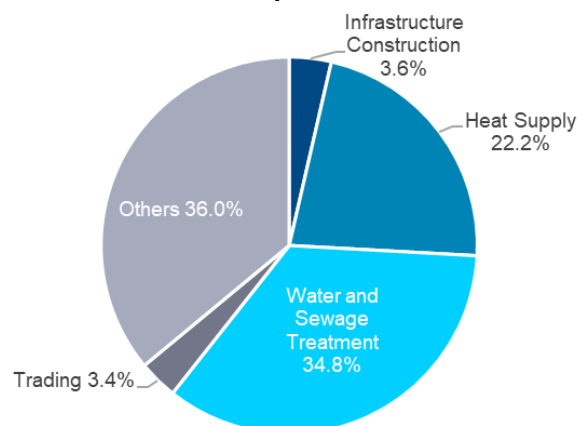
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	36.9	38.8	41.7	41.8
Total Equity (RMB billion)	11.9	12.4	13.0	12.8
Total Revenue (RMB billion)	3.5	3.6	3.2	0.7
Total Debt/Total Capital (%)	65.0	65.6	66.4	68.0

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

Source: Company information, CCXAP research

Corporate Profile

Established in 2009, HBSD is one of the major local infrastructure investment and financing companies ("LIIFCs") in Xingtai City, responsible for urban development and construction, as well as the operation of state-owned assets in Xingtai City. The Company is primarily engaged in infrastructure construction and public utility services such as water supply, sewage treatment and heat supply. It also diversified its businesses into other commercial activities including trading, commercial property development and leasing, and fund investments. As of 31 March 2024, the Company was fully and directly owned by the State-owned Assets Supervision and Administration Commission of Xingtai Municipal Government ("Xingtai SASAC").

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Xingtai Municipal Government has a very strong capacity to provide support given its status as one of the prefectural-level cities in Hebei Province, with relatively good economic and industrial foundations. However, its fiscal metrics are moderate.

Hebei Province is a northern province of China with a good geographic location and rich resources such as coal, steel and marine resources. Together with the Bohai Sea, it encloses the direct-administered municipalities of Beijing and Tianjin, forming coordinated development of the Beijing-Tianjin-Hebei region. Although affected by the Chinese policy to reduce capacity in the coal and steel industries, Hebei Province's economic scale has steadily increased over the past five years. In 2023, Hebei Province recorded a gross regional production ("GRP") of RMB4,394.4 billion with a year-over-year ("YoY") growth rate of 5.5%, ranking 11th among all provinces in China. Hebei Province is expected to benefit from the promotion of national strategies including the coordinated development of the Beijing-Tianjin-Hebei region and the construction of Xiong'an New District. Hebei Province's fiscal income also increased steadily, however, its fiscal self-sufficient ratio, as calculated by general budgetary revenue over general budgetary expenditure, was moderate and its fiscal income relies on support from the higher-tier government. In 2023, its general budgetary revenue amounted to around RMB428.6 billion, increasing from RMB416.8 billion in 2021.

Xingtai City is a prefecture-level city in Hebei Province and one of the cities located in the Bohai economic region. On the back of its rich mineral resources including coal mines, iron ore, gypsum mines, ceramic clay and rock salt, it is the most important energy base in North China. Its pillar industries include steel deep processing, coal chemical industry, equipment manufacturing, food and medicine, textile and clothing, new building materials and new energy. On the back of Xingtai City's steady economic growth, the general budgetary revenue increased year by year. In 2023, Xingtai City recorded a GRP of RMB258.6 billion with a YoY growth rate of 4.1%, and its general budgetary revenue amounted to RMB21.4 billion. However, the fiscal metrics remained moderate. The percentage of tax revenue to the general budgetary revenue over the past three years was 56.3%. The fiscal self-sufficient ratios were below 35% over the past three years, reflecting reliance on support from high-tier governments. The average transfer income of Xingtai Municipal Government over the past three years was RMB35.3 billion. As of the end of 2023, the local government's outstanding debt amounted to RMB110.4 billion, accounting for about 42.7% of GRP and indicating relatively large debt pressure.

Exhibit 3. Key Economic and Fiscal Indicators of Xingtai City

	2021FY	2022FY	2023FY
GRP (RMB billion)	242.7	254.7	258.6
GRP Growth (%)	6.2	3.6	4.1
General Budgetary Revenue (RMB billion)	19.1	21.0	21.4
General Budgetary Expenditure (RMB billion)	57.3	57.3	64.2
Local Government Debt (RMB billion)	79.2	79.2	110.4

Source: Xingtai Municipal Government, CCXAP research

Government's Willingness to Provide Support**Important role in the urban development and public services of Xingtai City**

HBSD is one of the key LIIFCs of Xingtai Municipal Government, responsible for the construction and operation of infrastructure and public utilities in Xingtai City. It had completed a number of large-scale projects since its establishment, including water plant construction, municipal road projects and affordable housing projects, which were important for the urbanization of Xingtai City. In addition, HBSD provides essential public utility services with strong regional monopolistic advantages in the city.

Infrastructure construction is HBSD's core business. Delegated by the local government, the Company is mainly responsible for the construction of the central area of Xingtai City with an area of 95 square kilometers. Since 2017, HBSD has shifted its business mode to self-operation and Public-Private Partnership ("PPP") from Build-and-Transfer ("BT") and agency construction. All the projects under BT or agency model were completed, including affordable housing projects, shantytown projects, municipal road projects and the water plant. As of 31 March 2024, all the PPP projects were under construction with a total investment of RMB2.8 billion and an uninvested amount of around RMB827.8 million, most of which within Xingtai City and rely on government repayment to achieve revenue. Meanwhile, the Company had 7 self-operated infrastructure construction projects with a total investment of RMB2.8 billion and an uninvested amount of around RMB523.8 million, including the museum, kindergarten, and heat supply pipeline. Most of the self-operated projects are shifted from agency construction mode and rely on operating revenue to cover their initial investment. The sustainability of the infrastructure construction is highly related to the local government's planning and the degree of urbanization of Xingtai City.

HBSD provides public utility services in Xingtai City and has strong regional monopolistic advantages, which mainly include water supply, wastewater treatment and heat energy supply. The Company takes the majority shares of heat supply and installation of pressure pipes in the center of Xingtai City. As of 31 March 2024, the Company's heat supply service covers around 365.5 thousand households, with heating networks of 407.7 kilometers and service areas of around 41.6 million square meters. Meanwhile, it provides water supply, sewage treatment and installation and maintenance of water pipes mainly for residencies within the central area of Xingtai City as well as some districts and counties. As of 31 March 2024, its daily water supply capacity was 350 thousand tons and the serving population maintained at 398.1 thousand households. As the phase I sewage treatment project in Xingdong New District was put into operation, the Company's daily treatment capacity maintained at 275 thousand tons as of 31 March 2024. At the same time, the phase II sewage treatment project in Xingdong New District with a designed daily treatment capacity of 25 thousand tons was under construction. The Company will maintain its market position in sewage treatment with its 25-year franchise obtained in 2020. Considering its public nature and strong market position, the public utilities business is relatively stable and generates recurring income.

Good track record of receiving government support

HBSD has a good track record of receiving government support in various forms such as equity transfer, operating subsidies, and government payment for construction projects. For example, from 2023 to 2024Q1, the Company received a total of around RMB27.3 million in subsidies and RMB12.5 million in capital injection from the local government. In addition, the Company is expected to receive ongoing government payments considering the pending payments of around RMB4.5 billion for completed projects under BT and agency construction mode as of 31 March 2024. However, these government payments have a close linkage with its fiscal position, which would be volatile, and thus forms relatively large receivables due from the local government. The Company is expected to receive government payments when its PPP projects are put into operation. At present, all the PPP projects depend on government payments to achieve fund balancing, which will be included in the fiscal budget of the related government. Given its important position in the development of Xingtai City, we expect the Company to receive government support in the next 12-18 months.

Medium exposure to commercial activities

HBSD diversified into other business segments such as trading, commercial property development and leasing, financial investment and new energy. Considering that the ratio of commercial assets to its total assets was around 20% and relatively large scale of self-operated projects under construction and planning, we estimate its exposure to commercial activities is medium and increasing.

HBSD has leased its buildings and land to the local government, which is considered relatively low commercial risks. However, given the ongoing investment in commercial buildings and industrial parks, the exposure to the leasing business is expected to increase. The rental of such commercial buildings and industrial parks relies on local investment attraction and lead to higher commercial risks. As of 31 March 2024, the Company had 3 commercial building projects and 2 industrial parks under construction, with a total estimated investment of RMB2.4 billion and an uninvested amount of approximately RMB814.4 million. Meanwhile, there were 4 commercial building projects under planning, with a total investment of RMB1.2 billion. The Company plans to achieve fund balancing through sales, leasing, as well as operating income. However, increasing investment in commercial property development may bring more operating uncertainty and financial risks to the Company.

Moreover, HBSD engages in financial investment business through fund investment or direct investment. As of 31 March 2024, the Company has invested in 8 funds with subscribed capital of around RMB953 million. However, the dividend and investment income generated from these funds is limited. Moreover, the majority of these funds reached the exit stage, we should pay attention to the subsequent collection of investment. In addition, the Company proposes to establish a fund of funds with a scale of RMB1.0 billion and would subscribe RMB990 million. The fund of funds would focus on the local specialized and sophisticated enterprises, enterprises which are attracted and settled in Xingtai City, as well as local cultural tourism industry. The Company also directly invests in banks such as Bank of Xingtai, which generate certain investment earnings each year. For example, it generated an investment income of RMB89.6 million in 2023 from its investment in Bank of Xingtai. The financial investment business brings higher commercial risks to the Company than its public utility and infrastructure business, and its actual return fluctuates along with the market condition and operation performance of invested enterprises.

The Company's trading business is primarily focused on coal, steel and mineral and gradually expanded but its profitability remained low. The revenue from trading had decreased significantly to RMB160.00 million in 2023 from RMB1.1 billion in 2021 due to the adjustment of audit rules from gross to net method of accounting. Moreover, there are certain concentration risks in trading business given its concentration of suppliers and

customers. HBSD also plans to expand its commercial activities in new energy sector, including super charging station project, wind power generation project, as well as energy storage project. Although, this business may bring supplementary income to HBSD, it would also bring operation risk and capital expenditure pressure to HBSD. The business is currently in planning stage.

High financial leverage and moderate asset liquidity

HBSD had a high debt burden given its high financial leverage. The debt level continuously increased over the past three years mainly due to ongoing financing for construction projects. As of 31 March 2024, the total debt increased to RMB27.3 billion from RMB22.1 billion in 2021 and the financial leverage, measured by the total capital ratio, increased to 68.0% from 65.0% in 2021. Among the total debt, there were around RMB4.8 billion in loans for on-lending to shanty town projects, which were planned to be repaid by the fiscal income of Xiangdu District and Xindu District. The Company's debt structure is manageable with long-term debt accounting for around 70% of total debt. However, the cash to short-term debt ratio is weak over the past three years. As of 31 March 2024, the cash to short-term debt ratio was 0.3x, indicating a relatively high refinancing need to cover its short-term debt. Considering the uninvested amount of around RMB3.5 billion from its projects under construction and planning and slow repayment from infrastructure construction, we expect the Company to rely on external financing to fulfill its investment needs and its debt leverage to remain at a high level in the next 12-18 months.

HBSD had moderate asset liquidity. As of 31 March 2024, the inventories accounted for around 26.1% of total assets and were mainly land transferred from the local government as well as construction costs of infrastructure projects and self-operated projects, which were considered as low liquidity. In addition, a large amount of receivables which were mainly from the local government and local state-owned enterprises also had certain capital occupations.

Diversified funding channels

The Company's diversified funding channels, including banks, capital markets as well as non-standard financing, may temper its refinancing and capital expenditure pressure. The debt of HBSD mainly consists of bank borrowing and bonds. The Company has built long-term and close relationships with different banks such as policy banks, state-owned commercial banks, and city commercial banks including China Development Bank, China Construction Bank and Bank of Communications, and Bank of Xingtai Co., Ltd. As of 31 March 2024, it obtained bank credit facilities of around RMB26.3 billion, with an unused portion of RMB12.8 billion, indicating a relatively sufficient liquidity buffer. Besides, the Company has good access to the domestic capital market and has issued various products including MTNs, PPNs and ABS. For example, the Company issued a tranche of 5-year MTN of RMB760 million in August 2024, with a coupon rate of 2.35%. The Company also has record of offshore bond issuance. In June 2024, it issued one offshore bond of USD79 million for refinancing. The Company also had manageable exposure to non-standard financing, which accounted for less than 10% of total debt as of 31 March 2024.

ESG Considerations

HBSD is exposed to environmental risks because it has undertaken construction projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close monitoring during the construction phase.

HBSD bears social risks as it plays a crucial role in the social welfare of the residents in the Xingtai City.

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.

HBSD's governance considerations are also material as the Company is subject to oversight and reporting requirements to the Xingtai Municipal Government and has to 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 \(July 2022\)](#).

Appendix

Exhibit 4. Peer comparison

	Hebei Shunde Investment Group Company Limited	Xingtai Transportation Construction Group Co., Ltd.
Long-Term Credit Rating	BBB _g +	BBB _g +
Shareholder	Xingtai SASAC (100%)	Xingtai SASAC (100%)
Positioning	Important entity in the urban development and public services of Xingtai City	Important entity in urban and rural construction as well as public services of Xingtai City
Total Asset (RMB billion)	41.7	49.8
Total Equity (RMB billion)	13.0	17.6
Total Revenue (RMB billion)	3.2	10.2

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company data, CCXAP research

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