

## Credit Opinion

27 November 2024

### Ratings

Senior Unsecured Debt Rating	BBB <sub>g</sub> +
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Sanming City Construction and Development Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Sanming City Construction and Development Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Sanming City Construction and Development Group Co., Ltd. ("SCCD" or the "Company") reflects (1) Sanming 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 Sanming Municipal Government's capacity to provide support is reflected by its comprehensive industrial system, with ongoing economic growth and moderate fiscal stability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong position in municipal infrastructure construction and affordable housing development of Sanming City; (2) high business sustainability in public policy projects; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) moderate debt growth and relatively high debt leverage; and (3) weak asset liquidity.

The stable outlook on SCCD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strong position in municipal infrastructure construction and affordable housing development of Sanming City.

## Rating Drivers

- Strong position in municipal infrastructure construction and affordable housing development of Sanming City
- High business sustainability in public policy projects
- Good track record of receiving government support
- Medium exposure to commercial activities
- Moderate debt growth and relatively high debt leverage
- Access to funding with certain proportion of non-standard financing

## 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) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improvement in 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) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

## Key Indicators

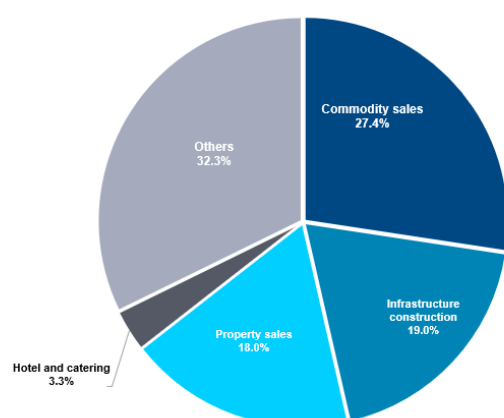
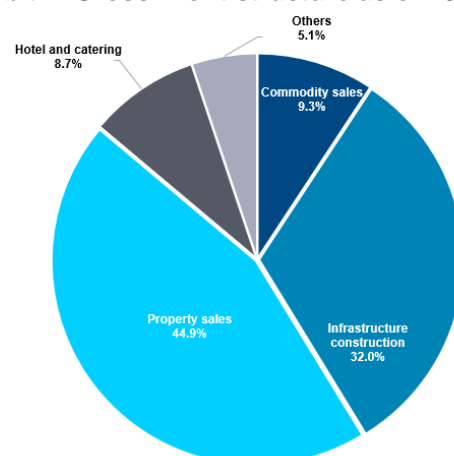
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	42.3	44.2	46.9	48.0
Total Equity (RMB billion)	13.9	14.2	14.6	14.8
Total Revenue (RMB billion)	3.4	3.7	4.0	1.9
Total Debt/Total Capital (%)	52.3	53.5	57.2	56.6

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

Source: Company information; CCXAP research

## Corporate Profile

Established in 2019, SCCD is an important local infrastructure investment and financing platform ("LIIFC") in Sanming City, mainly responsible for municipal infrastructure construction and affordable housing construction. The Company is also engaged in property development, commodity sales, as well as hotel and catering businesses. As of 30 June 2024, State-owned Assets Supervision and Administration Commission of the Sanming Municipal Government ("Sanming SASAC") held 100% equity interests of SCCD, and was its ultimate controlling shareholder.

**Exhibit 1. Revenue structure as of 2023****Exhibit 2. Gross Profit structure as of 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe that Sanming Municipal Government has a very strong capacity to provide support as reflected by its comprehensive industrial system, with ongoing economic growth and moderate fiscal stability.

Fujian Province is a highly economic developed province in Southeast China. With the support of its structural transformation and upgrading, Fujian Province's GRP steadily grew from RMB5.3 trillion in 2022 to RMB5.4 trillion in 2023, ranking 8<sup>th</sup> among all the provinces in China in 2023. In the first three quarters of 2024, Fujian Province recorded a YoY growth of 5.5% in GRP, reaching RMB4.0 trillion.

Located in the middle part of Fujian Province, Sanming City is an emerging industrial city with a comprehensive industrial system, including industries of metallurgy, chemicals, coal, plastics, papermaking, forestry, building materials, electronics and medicine. The economy of Sanming City has been growing steadily over the past three years. In 2023, its GRP grew to RMB300.7 billion, a YoY increase of 1.8%. In the first half of 2024, its GRP recorded RMB133.8 billion, with a YoY growth rate of 5.0%. With the economy recovery, Sanming Municipal Government's general budgetary revenue slightly increased from RMB11.1 billion in 2022 to RMB11.8 billion in 2023. In the first three quarters of 2024, its general budgetary revenue saw a YoY growth of 3.5%. Nevertheless, it has a moderate fiscal stability, with tax income accounting for 58.1% in 2023. Meanwhile, its fiscal balance has been modest, with average general budgetary revenue to general budgetary expenditure ratio of 33.7% over the past three years. Sanming Municipal Government's has an increasing debt burden and high debt ratio. As of end-2023, it has outstanding government debt of RMB82.8 billion, accounting for 27.5% of its GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Sanming City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	295.3	311.0	300.7
GRP Growth (%)	5.8	3.1	1.8
General Budgetary Revenue (RMB billion)	11.4	11.1	11.8
General Budgetary Expenditure (RMB billion)	31.0	35.0	36.1
Local Government Debt (RMB billion)	69.7	70.5	82.8

Source: Statistics Bureau of Sanming City, CCXAP research

## **Government Willingness to Provide Support**

### **Strong position in municipal infrastructure construction and affordable housing development of Sanming City**

As the important infrastructure construction and affordable housing construction entity in Sanming City, SCCD mainly responsible for the municipal infrastructure construction and affordable housing construction of Sanming City, with strong market business position. The Company has successfully undertaken a substantial number of construction projects in the region, thereby contributing significantly to the urbanization of Sanming City. We believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

### **High business sustainability in public policy projects**

SCCD has abundant construction projects in the pipeline, which can ensure the sustainability of its public policy businesses, but exert certain capital expenditure pressure on the Company. Besides, the progress of project repayment from the local government is prolonged, causing capital occupation to the Company.

The municipal projects undertaken by the Company mainly include roads, bridges, schools, hospitals, and parks. The Company signs construction agreements with the entrusting parties, mainly Sanming Municipal Housing and Urban-Rural Development Bureau and other local state-owned enterprises, which will repurchase the completed projects with payment based on the construction cost plus an agreed return. As of 30 June 2024, the Company had large amount of municipal projects under construction or planning, with estimated total investment of RMB8.5 billion and uninvested amount of RMB2.0 billion, exert certain capital expenditure pressure on the Company.

The Company also undertakes affordable housing construction mainly under self-operation model, while the completed projects were mainly carried out by agency construction model. As of 30 June 2024, the Company's affordable housing projects under construction or planning required estimated total investment of RMB4.2 billion, with uninvested amount of RMB612.6 million. As of the end of 2023, the total planned repayment amount of the affordable housing project was RMB2.1 billion, while outstanding amount has been RMB1.0 billion. The subsequent repayment progress shall be closely monitored.

### **Medium exposure to commercial activities**

In addition to public activities, SCCD is also engaged in commercial businesses, mainly including property development and commodities sales businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for 15% to 20% of its total assets. However, the property development is susceptible to local property market conditions and policies, while commodity sales business is subject to concentration risk.

The Company participates in the development of residential and commercial properties. The revenue of this segment declined over the past year, from RMB1.2 billion in 2022 to RMB726.7 million in 2023, mainly because the number of completed projects dropped on a YoY basis. However, as more mid- and high-end projects were completed in 2023, the gross profit margin of the property development business increased to 43.7%. As of 30 June 2024, the projects under construction had a total saleable floor area of 2.6 million square meters, of which 1.7 million square meters have been sold out. Given no property projects under planning, the sustainability of this segment is subject to uncertainty. In addition, the property development is susceptible to local property market conditions and policies.

The Company's commodity sales business is operated via its subsidiary under demand driven model, mainly covering cement and steel. Besides, this business is subject to concentration risk, as the Company has high reliance on its top 5 suppliers (83.9%) and customers (87.0%). Over the past year, the revenue from commodity sales business increased steadily, with revenue increased from RMB968 million in 2022 to RMB1.1 billion in 2023. Although the gross profit margin of the segment slightly increased due to the increase in the proportion of copper rod trade, the gross profit margin of the segment remained relatively low level of 5.9%.

The Company also participates in hotel and catering, and property leasing businesses. However, the scale of these businesses is small, making limited contribution to the Company's income and profit.

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

The shareholding structure and business operations of the Company are highly correlated with Sanming Municipal Government, and the Company has a good track record of government support, such as subsidies, special bond funds, and asset injections, which are crucial for enhancing the Company's solvency and operational efficiency. In 2023, the Company received the subsidies and project repayment from the government of RMB344.6 million and RMB145.9 million, respectively. In the first half of 2024, the Company received financial subsidy of RMB86.2 million. In light of the Company's important position in Sanming City, we expect the Company to receive ongoing support from the local government in the foreseeable future.

### **Moderate debt growth and relatively high debt leverage**

SCCD's total debt has increased moderately in the past year due to ongoing financing needs. The total debt increased from RMB16.3 billion at end-2022 and RMB19.2 billion at mid-2024, with relatively high total capitalization ratio of 56.6%. Given the large number of projects and high reliance on external financing, we expect the Company's debt burden will continue to increase in the foreseeable future. Meanwhile, the Company faces certain short-term repayment pressure, as reflected by its short-term debt to total debt ratio of 32.4% and cash to short-term debt ratio of 0.3x at mid-2024.

Furthermore, SCCD's asset liquidity is moderate, which may undermine its financing flexibility. The Company's total asset mainly consists of receivables and inventories, which accounted for around 64% of its total asset at mid-2024. Receivables are mainly unreceived projects payments from the local government, while inventories are mainly development costs for its construction projects, all of which are considered low liquidity.

### **Access to funding with certain proportion of non-standard financing**

SCCD has sufficient stand-by liquidity and access to bond markets. The Company has good relationship with diversified large domestic commercial and policy banks. As of 30 June 2024, the Company's total credit facilities amounted to RMB13.4 billion, of which the unutilized portion was RMB5.5 billion. SCCD and its subsidiary issued RMB3.4 billion with coupon rate ranging from 2.35% to 3.4% in the onshore debt capital market in 2024. In addition to the active issuance on the onshore market, the Company also has broadened its financing channel to offshore bond market since 2024. In 2024, the Company raised RMB1.5 billion from the offshore bond market, with coupon rate ranging from 5.0% to 5.3%. Meanwhile, the Company has been reducing the exposure of non-standard financing since 2023. As of 30 June 2024, the non-standard debts accounted for around 17% of the total debt (2022: more than 25%).

## ESG Considerations

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

SCCD bears social risks as it implements public policy initiatives by building public infrastructure in the Zone. 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.

SCCD's governance considerations are also material as the Company is subject to oversight by Sanming Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## Structural Considerations

We did not notch SCCD's senior unsecured debts rating for structural subordination, reflecting our expectation that in the event of financial distress, the government will likely provide support to the Company as the holding company, thereby increasing the recovery prospects for the holding company's creditors. We also see that the structural subordination risk is mitigated by the strategic importance of SCCD's infrastructure and public facility assets, thus we expect that government support will be provided to the Company to preserve its ownership of such assets.

## 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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