

CCXAP assigns first-time long-term credit rating of BBB_g+ to Shangrao Urban Operation (Holding) Group Co., Ltd., with stable outlook.

Hong Kong, 19 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Shangrao Urban Operation (Holding) Group Co., Ltd. (“SUOG” or the “Company”), with stable outlook.

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 support, based on our assessment of the Company’s characteristics. Our assessment of the Shangrao Municipal Government’s capacity to provide 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 provide support, which is based on the Company’s (1) essential role as one of the four state-owned assets operation entities in Shangrao City; (2) key position as the major infrastructure construction and land development platform in Shangrao City; and (3) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) rapid debt growth and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees.

Corporate Profile

Established in 2020 and formerly known as Shangrao City Urban Investment Cultural Tourism Development Co., Ltd, SUOG is an important local infrastructure investment and financing Companies (“LIIFCs”) in Shangrao City after equity transfer and capital injection in December 2022. The Company is mainly responsible for land development, shantytown renovation, 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. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Shangrao City (“Shangrao SASAC”) was the ultimate controller of the Company holding 100% stakes of the Company through Shangrao Investment Holding Group Co., Ltd. (“SIHG”).

Rating Rationale

Credit Strengths

Essential role as one of the four state-owned assets operation entities in Shangrao City.

There are four main state-owned assets operation entities in Shangrao City. As a major infrastructure construction entity and an important comprehensive urban operation service provider in Shangrao City, SUOG has played an essential and active role in implementing the local government’s major strategic initiatives for urban planning and municipal construction in



Shangrao City by undertaking a series of infrastructure and resettlement housing construction as well as land development projects in the region.

Key position as the major infrastructure construction and land development platform in Shangrao City. As the main urban developer in Shangrao City, the Company is entrusted by the local government to undertake land consolidation and infrastructure construction. The agency construction business is sustainable given considerable infrastructure construction projects under construction in the pipeline, but could also exert certain capital expenditure pressure to the Company.

Solid track record of receiving government payments. As one of the four municipal major state-owned enterprises under the Shangrao Municipal Government, SUOG has received recurring financial support, including financial subsidies and capital injections. The Shangrao Municipal Government also supports the Company in the form of equity transfers and asset injections.

Credit Challenges

Rapid debt growth with relatively large short-term debt maturities. Due to ongoing capital expenditure for infrastructure construction projects, SUOG's total debt has increasingly grown. The Company's total debt had increased to RMB73.8 billion as of 31 March 2024 from RMB66.8 billion as the end of 2021. In addition, as of 31 March 2024, its short-term debt accounted for about 35.1% of its total debt, and cash to short-term debt ratio was 0.1x, indicating certain short-term debt servicing pressure.

Moderate asset liquidity. SUOG's asset liquidity is considered moderate as reflected by its assets are primarily composed of inventories and receivables, both with relatively low liquidity. As of 31 March 2024, the inventories and the receivables amounted to RMB78.8 billion, accounting for 57.3% of total assets.

Medium contingent liability risk from external guarantees. As of 31 March 2024, the Company's external guarantee amounted to RMB8.0 billion, representing about 17.2% of its net assets. The guarantees for Shangrao ETDZ and county-level LIIFCs amounted to RMB1.7 billion, accounting for 21.4% 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 supports from the local government when needed.

Rating Outlook

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.

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.

Rating Methodology

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

Regulatory Disclosures

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