

CCXAP affirms Guangdong Shunde Holding Group Co., Ltd.'s A_g- long-term credit rating, with stable outlook

Hong Kong, 30 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Guangdong Shunde Holding Group Co., Ltd. (“Shunde Holding” or the “Company”) at A_g-, with stable outlook.

The A_g- long-term credit rating of Shunde Holding reflects Shunde District Government’s (1) very strong capacity to provide support, and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Shunde District Government’s capacity to provide support reflects its vital role in Foshan City and Guangdong Province, with strong economic conditions, good fiscal metrics and debt profile.

The rating also reflects the local government’s very high willingness to provide support, which is based on the Company’s (1) important role in local infrastructure construction and utility services; (2) good track record of receiving government payments; and (3) good access to funding. However, the Company’s rating is constrained by its (1) large exposure to commercial activities with high capital pressure, especially in its property leasing and property development businesses; (2) increasing debt leverage; and (3) medium exposure to contingent liabilities risk.

Corporate Profile

Founded in 2010, Shunde Holding is a local infrastructure investment and financing company (“LIIFC”) with the largest total assets in Shunde District. Shunde Holding is responsible for major public infrastructure and welfare projects in the district, including the provision of public utility services such as water supply and waste-to-energy, pipeline network construction, and infrastructure construction such as roads and bridges, and undertaking local environmental protection projects. It also has commercial operations, including property development and operations, equity investments, and security services. As of 31 March 2023, the Company was 90.41% owned by the State-owned Assets Supervision and Administration Commission of Shunde District (“Shunde SASAC”) and 9.59% owned by the Guangdong Provincial Department of Finance.

Rating Rationale

Credit Strengths

Important role in local infrastructure construction and utility services. Shunde Holding is the most important LIIFC in Shunde District, with a clear strategic role in regional development. The Company is mainly responsible for major public infrastructure and welfare projects in Shunde District, including the provision of public utility services such as water supply and waste-to-energy, pipeline network construction, infrastructure construction such as roads and bridges, and maintenance of highways. We believe that the replacement cost for the Company’s role is high as these public services are essential for local residents and regional development.

Good track record of receiving government payments. Government payments for Shunde Holding's public infrastructure projects are timely and adequate, as most of its projects are fully supported by the district's fiscal budget. This could largely reduce the capital pressure on Shunde Holding. In addition, the Company continued to receive government support from the Shunde District Government, including capital injections, and subsidies. Given Shunde Holding's important strategic role, we expect the Company will continue to receive support from the Shunde District Government in the future.

Good access to funding. Shunde Holding has good access to funding, including bank loans, bond issuance, and nonstandard financing. As of 31 March 2023, bank loans, bond issuance, and nonstandard financing accounted for about 60%, 4%, and 20% of its total debt, respectively. Taking into account the Company's important status as the sole platform to provide utility services in Shunde District, we expect the Company to maintain access to stable funding and retain good refinancing capabilities.

Credit Challenges

Large exposure to commercial activities with high capital pressure. Shunde Holding's major commercial activities include property development, property leasing, security service and strategic investments. We estimate the Company's risk exposure to commercial business is high, accounting for more than 30% of total assets as of end-2022. Most of its commercial businesses are funded through external debt issuance, exerting high capital pressure to the Company. Given the large amount of construction projects, we expect the Company's commercial exposure will continue to increase in the future.

Increasing debt leverage. With ongoing financing for its construction projects and land acquisitions, Shunde Holding has demonstrated a fast debt growth and increasing debt leverage since 2022. The Company's total debt increased from RMB4.8 billion at end-2021 to RMB16.7 billion as of 31 March 2023, while its total capitalization ratio increased from 25.9% to 53.6% over the same period.

Medium exposure to contingent liabilities risks. Shunde Holding is subject to medium contingent liabilities risks, driven by its large external guarantees with no counter-guarantee measures. As of 31 March 2023, the Company provided guarantees of around RMB6.7 billion to third parties, accounting for 46.5% of its net assets.

Rating Outlook

The stable outlook on Shunde Holding's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will continue to play an important role in local infrastructure construction and public utility services.

What could upgrade the rating?

The rating could be upgraded if (1) Shunde District's economic prospects and fiscal performance improve and its ability to support the Company increases; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide

support, such as material reduction of the exposure to risky commercial activities or external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) Shunde District's economic prospects and fiscal performance deteriorate, reducing its capacity to support the Company; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, weakened funding ability, or decreased government payments.

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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