

CCXAP affirms Shaoxing Shangyu State-owned Capital Investment and Operation Co., Ltd.'s BBB_g+ long-term credit rating, with stable outlook

Hong Kong, 7 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Shaoxing Shangyu State-owned Capital Investment and Operation Co., Ltd. (“SYSC” or the “Company”) at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of SYSC reflects (1) Shangyu District Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Shangyu District Government’s capacity to provide support reflects the Shangyu District’s relatively good comprehensive strength, with ongoing economic growth and good fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the core state-owned platform in Shangyu District with important policy role in the urban construction and land development; (2) good access to funding; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) moderate exposure to commercial business activities; (2) increasing debt leverage and weak asset liquidity; and (3) moderate exposure to contingent liabilities.

Corporate Profile

Established in 2015, SYSC is the largest local infrastructure investment and financing company (“LIIFC”) in Shangyu District, Shaoxing City in terms of total assets. As the main operator and developer in Shangyu District, the Company engages in diversified businesses, including water supply and wastewater treatment, land development, construction, resettlement housing, municipality operation, and commodity transaction businesses. As of 30 June 2023, the Company was wholly owned and directly controlled by State-owned Assets Supervision and Administration Commission of Shaoxing City Shangyu District (“Shangyu SASAC”).

Rating Rationale

Credit Strengths

Important policy role in the urban construction and land development of Shangyu District. Positioned as the main developer in Shangyu District, SYSC continues to undertake various public-related activities such as land development, infrastructure construction, resettlement housing, water supply and wastewater treatment, and grain storage, which significantly benefits people’s livelihood and promotes the process of urbanization.

Good access to fundings. SYSC has sufficient stand-by liquidity and access to bond markets. The Company has good relationship with diversified large domestic commercial and policy banks, such as the Bank of China Limited and the Agricultural Development Bank. Furthermore, the Company continues to have smooth access to financing from both onshore and offshore bond markets.

Good track record of receiving government payments. SYSC continues to receive payment support from the local government in terms of capital injections, asset injections, financial subsidies. Considering SYSC's important position and tight relationship with the local government, we expect the local government will continue to support SYSC by providing payments over the next 12 to 18 months.

Credit Challenges

Moderate exposure to commercial business activities. SYSC also engages in commercial business activities, including commodity transaction, sales of refined oil, engineering construction and municipality operation, which generate supplementary revenue and profit to the Company. We estimate that SYSC had moderate commercial exposure, with the assets of commercial businesses accounting for around 20% of its total assets.

Increasing debt leverage and weak asset liquidity. SYSC's total debt and debt leverage increased moderately in the past three years. The Company's total debt increased from RMB77.6 billion at end-2021 to RMB112.0 billion at mid-2023, while its total capitalization ratio increased from 52.5% to 61.0% over the same period. SYSC's asset liquidity is relatively weak, which may undermine its financial flexibility.

Moderate exposure to contingent liabilities. SYSC has moderate exposure to contingent liabilities as reflected by its large amount of external guarantees. As of 30 June 2023, the Company's external guarantees amounted to RMB17.9 billion, 25.1% relative to total equity.

Rating Outlook

The stable outlook on SYSC's rating reflects our expectation that Shangyu District Government's capacity to provide support will remain stable, and the Company will maintain its vital position in Shangyu District.

What could upgrade the rating?

The rating could be upgraded if (1) Shangyu District 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 a substantial reduction in external guarantees or improved debt management..

What could downgrade the rating?

The rating could be downgraded if (1) Shangyu District 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 a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.

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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