

CCXAP affirms Shouguang City Construction Investment Development Co., Ltd.'s long-term credit rating at BBB_g-, 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 Shouguang City Construction Investment Development Co., Ltd. (“SGCC” or the “Company”) at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of SGCC reflects Shouguang City Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Shouguang City’s status as one of the top 100 counties in China, with rapid economic growth and good fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) dominant role in local infrastructure construction, operation of land resources, and provision of essential public services; (2) good track record of receiving government payments; and (3) good access to diversified funding channels. However, the rating is constrained by the Company’s (1) high exposure to commercial activities; (2) increasing debt leverage driven by large capital expenditure; and (3) medium contingent risks resulting from external guarantees.

Corporate Profile

Founded in February 2008, SGCC is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Shouguang City, Weifang City, Shandong Province. The Company engages in the public policy projects under the entrusted construction model, including infrastructure construction, affordable and resettlement housing development, operation of land resources, as well as the provision of heat energy services. The Company also has commercial operations, including residential housing development, property leasing, production and sales of commercial concrete, engineering construction, as well as grain sales. As of 30 June 2023, SGCC was wholly-owned by Shouguang City Investment Holding Group Co., Ltd. and was ultimately controlled by the Shouguang City State-owned Assets Operation Center.

Rating Rationale

Credit Strengths

Dominant role in local infrastructure construction, operation of land resources, and provision of essential public services. SGCC is one of the major LIIFCs in Shouguang City that undertakes the role of city development and public construction as well as provision of utility services. The Company is commissioned to carry out various key infrastructure construction and land resource operation projects that are crucial to local economic development and to provide public utility services that benefit the general public. Moreover, the Company has also shouldered the construction of resettlement houses and affordable houses.



Good track record of receiving government payments. SGCC has a proven track record of receiving recurring support from the Shouguang City Government, such as capital injections, proceeds from government bond issuance, free injections of operating state-owned assets, and subsidies. Given the Company's strategic importance in the region, we expect the Company will continue to receive government cash payments and allocations from proceeds of the provincial government's special purpose bonds to support its capital expenditure in public policy-related investments.

Good access to diversified funding channels. SGCC has relatively good access to various sources of funding, including bank loans and onshore and offshore bond financing. The Company maintains good long-term relationships with large domestic banks, and participates in onshore and offshore bond markets. Additionally, SGCC had moderate exposure to shadow banking lending, as its proportion in non-standard products such as financial leasing was less than 10%.

Credit Challenges

High exposure to commercial activities. SGCC also engages in diversified commercial activities including real estate development, property leasing, production and sales of commercial concrete, engineering construction, and grain sales. As the majority of the Company's commercial businesses are subject to changes in the property market, subsequent project development and relevant income may experience higher volatility, particularly during the downturn of China's property market. Considering the difficulty in obtaining direct support from the government for commercial activities, the commercial activities may constrain the Company's credit profile and will inevitably expose the Company to more operational and financial risks.

Increasing debt leverage driven by large capital expenditure. In the past few years, SGCC's total debt has increased with the continuous expansion of its businesses. Furthermore, the Company has large investment plans in its diversified businesses including infrastructure construction, operation of land resources, supply of heat energy, and real estate development. We believe the Company's ongoing investment in real estate projects will be mostly funded by external debts, as it is more difficult to obtain direct financial support from the government for its commercial activities.

Medium contingent risks resulting from external guarantees. SGCC's credit profile is constrained by its relatively large external guarantees relative to its net assets. As of 30 June 2023, the Company's external guarantees amounted to RMB3.0 billion, accounting for 28.9% of its net assets, of which the majority were provided to four high-qualified state-owned enterprises. Relatively large guarantee exposure may increase SGCC's financial risks, which are caused by the credit risk of guarantees, especially for privately-owned enterprises during the economic downturn. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks.

Rating Outlook

The stable outlook on SGCC's rating reflects our expectation that Shouguang City Government's capacity to provide support will remain stable, and the Company's characteristics, such as its business profile and financial risks and controls will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially lowered exposure to risky commercial activities and increased public policy status.

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 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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