

CCXAP upgrades Shangrao Innovation Development Industry Investment Group Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Hong Kong, 28 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Shangrao Innovation Development Industry Investment Group Co., Ltd. (“SIIG” or the “Company”) to BBB_g from BBB_{g-}, with stable outlook.

The rating upgrade is based on the improving regional strength, which strengthens the local government’s capacity to support the Company. It also reflects the policy role of the Company, as the key urban infrastructure development platform in Shangrao Economic and Technical Development Zone (“Shangrao ETDZ”).

The long-term credit rating of SIIG reflects (1) Shangrao Municipal Government’s strong capacity to support, and (2) the local government’s high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Shangrao Municipal Government’s capacity to 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) leading position in infrastructure construction and utility services in Shangrao ETDZ; (2) good sustainability of public policy businesses; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities, with certain industrial investment risks; (2) high debt leverage and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees.

Corporate Profile

Founded in 2015, SIIG, previously known as Shangrao Economic and Technical Development Zone State-owned Capital Operation Co., Ltd., is one of the largest financing and investment entities in Shangrao City. The Company mainly engaged in infrastructure construction, industrial investment, water supply and sewage treatment businesses in Shangrao ETDZ. As of 30 September 2023, Shangrao State-owned Assets Supervision and Administration Commission (“Shangrao SASAC”) was its ultimate controller and held 55% of the Company’s stake, while the Management Committee of Shangrao ETDZ held the remaining 45%. The Company had paid-in capital of RMB7.0 billion as of the same date.

Rating Rationale

Credit Strengths

Leading position in infrastructure construction and utility services in Shangrao ETDZ.

As the largest infrastructure construction entity in Shangrao ETDZ, SIIG plays a vital role in public policy businesses in the region. Entrusted by the Management Committee of Shangrao ETDZ, the Company undertakes public projects including infrastructure construction, water

supply, sewage treatment, and shanty town renovation, which provide significant strategic importance for the government and benefits to the local social and economic development.

Good sustainability of public policy businesses. SIIG has sufficient project reserves, ensuring its business sustainability. As of 31 March 2023, the Company had 29 infrastructure construction and PPP projects under construction, with a total estimated investment of RMB18.2 billion, and an uninvested amount of RMB10.7 billion. The Company also had 9 infrastructure construction projects under planning, with a total investment of RMB3.5 billion.

Good track record of receiving government payments. SIIG has a good track record of receiving support from local government in terms of capital injection, asset injection, special funds, project repayments and subsidies, greatly increasing the financing stability and comprehensive competitiveness of the Company. Given SIIG's important role in the region, we expect the Company will continue to receive support from local government in the future.

Credit Challenges

Increasing exposure to commercial activities, with certain industrial investment risks. We consider SIIG have medium exposure to commercial activities, such as industrial investment, rental housing, metallic material business and self-operated projects construction, accounting for around 20% to 25% of its total assets. These activities provide supplementary income to the Company but exert certain funding and business risks, especially the investment risks from industrial investment business.

High debt leverage and moderate asset liquidity. SIIG's total debt increased from RMB43.4 billion at end-2022Q3 to RMB49.6 billion at end-2023Q3, with a relatively high total capitalization ratio of 55.2%. In addition, SIIG's asset liquidity is considered moderate. As of 30 September 2023, the Company's inventories, investment property, and total receivables accounted for 59.6% of total assets.

Medium contingent liability risk from external guarantees. As of 30 September 2023, the SIIG's external guarantee amount was RMB4.7 billion, accounting for about 11.6% of its net assets. Around 88% of the external guarantees were provided to local state-owned enterprises ("SOEs") in Shangrao City and the remaining external guarantees were provided to local private-owned enterprises. We estimate most of these local SOEs are likely to be supported by the local government when necessary, so that contingent risk would be controllable.

Rating Outlook

The stable outlook on SIIG'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 of urban infrastructure development platform of Shangrao City and Shangrao ETDZ.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support,



such as increase in its strategic significance; increase in government payments; or improvement in debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

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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