

CCXAP assigns first-time long-term credit rating of BBB_g+ to Guangdong Sanshui Development Group Co., Ltd, with stable outlook

Hong Kong, 10 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Guangdong Sanshui Development Group Co., Ltd (“Sanshui Development” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Guangdong Sanshui Development Group Co., Ltd. (“Sanshui Development” or the “Company”) reflects Sanshui District Government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Sanshui District Government’s capacity to provide support reflects Sanshui District’s comprehensive strength and geographic advantage, with ongoing economic growth and good fiscal balance.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) status as the most important local infrastructure construction and utility operation entity in Sanshui District; (2) good track record of receiving government support; and (3) good access to multiple funding channels. However, the rating is constrained by the Company’s (1) fast debt growth due to large capital expenditure; and (2) moderate asset liquidity.

Corporate Profile

Founded in 2012, Sanshui Development is the largest local infrastructure investment and financing company (“LIIFC”) in terms of total assets in Sanshui District, with strong regional importance. The Company is responsible for public policy projects in Sanshui District, including infrastructure construction, drainage facilities maintenance and garbage disposal. It also has several commercial businesses, including pork sale and property leasing. As of 31 December 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Sanshui District (“Sanshui SASAC”).

Rating Rationale

Credit Strengths

Most important local infrastructure construction entity in Sanshui District. There are five LIIFCs in Sanshui District, each with a clear position in regional development. The Company is mainly responsible for major infrastructure projects in Sanshui District, including transportation, water supply facilities and public facilities maintenance, making great contributions to the economic and social development of the region. We believe that the replacement cost for the Company’s role is high and will not easily be replaced by other local SOEs.

High sustainability of public policy businesses. As the most important infrastructure construction entity in Sanshui District, Sanshui Development has participated in infrastructure construction, drainage facilities maintenance and garbage disposal. There is large amount of public policy projects in the pipeline, ensuring high business sustainability, but exerting high capital expenditure pressure.

Good track record of receiving government support. Sanshui Development has regularly received support from the local government in the form of capital injection, asset transfer, and project payments. Furthermore, the local government has regularly made project payments to the Company, which had received RMB5.4 billion for completed infrastructure projects as of 31 December 2023. Given its role as the most important local infrastructure construction entity and utility services provider, we believe that the local government will continue to provide support to the Company.

Good access to multiple financing channels. Sanshui Development has good access to multiple funding, including bank loans and bonds. As of 31 December 2023, it obtained total credit facilities of RMB9.0 billion, with an unutilized amount of RMB6.3 billion. From July 2021 to December 2023, the Company and its subsidiary raised about RMB2.0 billion via issuance of 3 corporate bonds in the onshore bond market. Besides, the Company has no access to non-standard financing as of 31 December 2023.

Credit Challenges

Fast debt growth due to large capital expenditure. With ongoing financing for its infrastructure construction projects, Sanshui Development has fast debt growth, which weigh on its debt servicing capability. Its total debt increased from RMB1.3 billion at end-2021 to RMB4.8 billion at end-2023, while its total capitalization ratio increased from 19.6% to 42.9% over the same period. We expect that, given its large capital expenditure needs, the Company's debt burden will continue to grow in the next 12 to 18 months

Moderate asset liquidity. Sanshui Development's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, other receivables, and construction in progress, all with low liquidity.

Rating Outlook

The stable outlook on Sanshui Development's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will continue to serve as the most important infrastructure construction and utility operation entity in Sanshui District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management and asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.



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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