

## **CCXAP affirms Sheyang State-owned Assets Investment Group Co., Ltd.'s long-term credit rating at BBB<sub>g-</sub>, with stable outlook.**

Hong Kong, 29 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Sheyang State-owned Assets Investment Group Co., Ltd.’s (“SYSI” or the “Company”) long-term credit rating at BBB<sub>g-</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of SYSI reflects (1) the Sheyang County Government’s strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the Sheyang County Government’s capacity to provide support reflects Sheyang County’s status as one of the CCID Top 100 Counties in China, while its fiscal profile is modest.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership by the Sheyang County Government; (2) key role in infrastructure construction in Sheyang County; and (3) track record of receiving government support. However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities such as property development and photovoltaic power generation; (2) high reliance on bank borrowing and non-standard financing; and (3) medium level of contingent risk.

### **Corporate Profile**

Established in 2015, SYSI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Sheyang County, focusing on medical and cultural infrastructure construction such as hospitals and schools. In addition, SYSI has a diversified business scope including engineering construction, property development, photovoltaic power generation, and trading. In August 2023, the Company’s equity was transferred from Jiangsu Qianhehu Investment Holding Group Co., Ltd (“QHHI”) to Sheyang County Government, thereby the Sheyang County Government changed from indirect holding to direct holding.

### **Rating Rationale**

#### **Credit Strengths**

**Key role in infrastructure construction in Sheyang County.** SYSI is one of the key LIIFCs in Sheyang County, responsible for local infrastructure construction particularly in medical and cultural fields. The Company undertakes infrastructure construction in Sheyang County mainly under the agency construction model. As of 30 September 2023, SYSI has completed 7 key construction projects, including Sheyang County People’s Hospital Xingang City Branch, Maternal and Child Health Hospital, and Cultural Palace.

**Track record of receiving government support.** SYSI serves an important public policy function in medical and cultural infrastructure construction and is important to the economic and social development of Sheyang County. The Company has received ongoing support from the Sheyang County Government, in terms of capital injections, debt exemption, and operating



subsidies. Given the Company's important position in Sheyang County, we believe that SYSI will receive ongoing support from the local government.

### Credit Challenges

**Medium risk exposure to commercial activities.** SYSI has developed diversified businesses such as property development, trading, and photovoltaic power. Some of such commercial activities are policy-driven, such as photovoltaic power generation, in order to promote the development of local industries. The Company's risk exposure to commercial activities is considered medium, based on our assessment, given the local government has provided financial support to some of the Company's commercial projects.

**High reliance on bank borrowing and non-standard financing.** SYSI's debt level has fluctuated in recent years, with an increasing overall trend. SYSI's financing channels are relatively limited compared to its peers, in Sheyang County. The Company's portion of non-standard financing remained at a relatively high level. Non-standard financing which mainly consists of financial leases, has a long tenor but relatively high cost. In addition, most of the loans were secured by assets or guaranteed by other state-owned enterprises in Sheyang County.

**Medium level of contingent risk.** The Company remained medium exposure to contingent liabilities, which could potentially increase its repayment obligations. As of 30 September 2023, the total amount of external guarantees dramatically increased to RMB5.0 billion from RMB1.6 billion as of 30 September 2022, accounting for 78.6% of SYSI's net assets. However, we believe that the contingent risk of the external guarantee is moderately controllable, considering all of the external guarantees are provided to local state-owned enterprises.

### Rating Outlook

The stable outlook on SYSI's rating reflects our expectation that Sheyang County Government's capacity to provide support will remain stable, and the Company will maintain its important position in Sheyang County over the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the Sheyang County Government's ability 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 reduced exposure to risky commercial activities or improved financing ability.

#### What could downgrade the rating?

The rating could be downgraded if (1) Sheyang County 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 strategic significance, deteriorated debt management or increased contingent risk.



## 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Kelly Liang

*Credit Analyst*

+852-2860 7127

[kelly\\_liang@ccxap.com](mailto:kelly_liang@ccxap.com)

Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656