

## **CCXAP affirms Shangrao City Construction Investment Development Group Company Limited's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 13 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Shangrao City Construction Investment Development Group Company Limited's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of Shangrao City Construction Investment Development Group Company Limited (“SCID” or the “Company”) reflects (1) Shangrao Municipal Government's very strong capacity to support, and (2) the local government's very 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) essential role in infrastructure construction and land development in Shangrao City; (2) good track record of receiving government payments; and (3) diversified funding channels with low exposure to non-standard financing. However, the Company's rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees.

### **Corporate Profile**

Established in 2002, SCID is an important local infrastructure investment and finance company (“LIIFC”) in Shangrao City. The Company mainly engaged in infrastructure construction, land development, resettlement housing construction as well as commercial businesses including self-operated projects construction, production and trading of aluminum, electricity generation, expressway operation, property management, and hotel management in Shangrao City. As of 31 March 2024, Shangrao Urban Operation (Holding) Group Co., Ltd. (“SUOG”) held 98.0% of the Company's stake, while Jiangxi Provincial Administrative Assets Group Co., Ltd. held the remaining 2.0%. Shangrao State-owned Assets Supervision and Administration Commission (“Shangrao SASAC”) was its ultimate controller.

### **Rating Rationale**

#### **Credit Strengths**

**Essential role in infrastructure construction and land development in Shangrao City.** As a major subsidiary of SUOG and infrastructure construction entity in Shangrao City, SCID has played an essential and active role in implementing the local government's major strategic initiatives for urban planning and municipal construction in Shangrao City by undertaking a series of infrastructure and resettlement housing construction as well as land development



projects in the region. Given its essential role in regional development, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

**Good track record of receiving government payments.** SCID has a good track record of receiving support from the local government and shareholders. These supports include capital injection, asset transfer, project payments and subsidies, greatly increasing the capital strength and business operation of the Company. Given its essential position in infrastructure construction in Shangrao City, we believe that the local government will continue to provide support to the Company.

**Diversified funding channels with low exposure to non-standard financing.** SCID had good access to various sources of funding, including bank loans, onshore and offshore bond financing and non-standard financing. As of 31 March 2024, it had obtained total credit facilities of RMB49.9 billion from diversified policy banks and major domestic commercial banks, with available amount of RMB24.7 billion, indicating sufficient standby liquidity. As of 31 March 2024, around 44.6% of the Company's debt was provided by the debt capital market. In addition, the Company has a low exposure to non-standard financing, such as financial leasing, which accounted for less than 10% of its total debt at end-2024Q1.

#### Credit Challenges

**Medium exposure to commercial activities.** SCID also engages in commercial activities, such as production and trading of aluminum, electricity generation, property management, and hotel management businesses. We consider the Company's exposure to commercial businesses to be medium, as its market-driven businesses accounted for around 20% of its total assets. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks.

**High debt leverage and moderate asset liquidity.** SCID has high debt leverage along with the expansion in business scale and continuous investment in construction projects. The Company's adjusted total debt increased from RMB66.0 billion at end-2021 to RMB70.7 billion at end-2024Q1, with a relatively high total capitalization ratio of 60.5%. In addition, SCID's asset liquidity is considered moderate as reflected by the fact that its assets are primarily composed of inventories and receivables, both with relatively low liquidity. Moreover, the Company's investment properties and fixed assets accounted for around 10.6% of its total assets, which can generate supplementary income but the contribution is limited as a result of small scale.

**Medium contingent liability risk from external guarantees.** As of 31 March 2024, the Company's external guarantee amounted to RMB8.0 billion, accounting for about 17.2% of its net assets. All of the guarantees are provided to local LIIFCs or state-owned enterprises, with relatively low credit risk. We expect that the contingent liability risk of the Company is manageable, as it has taken counter-guarantee measures in all of the guarantees.

#### Rating Outlook



The stable outlook on SCID's rating reflects our expectation that the Company will maintain its important role in public-related activities in Shangrao City and will continue to receive government support 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; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decrease in exposure to commercial activities, or improvement in debt management.

**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 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**

CCXAP's Rating Symbols and Definitions are available on its website at:

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