

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Shaoyang Industrial Development Group Co., Ltd., with stable outlook.**

Hong Kong, 8 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub> to Shaoyang Industrial Development Group Co., Ltd. (“SYIC” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of SYIC reflects the Shaoyang Municipal Government’s (1) strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the Shaoyang Municipal Government’s capacity to provide support reflects its status as the first ranking by GRP in western Hunan Province, with steady economic growth, but constrained by its modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic role as the primary state-owned assets operation entity in Shaoyang City with strong regional franchise advantages in developing Shaoyang ETDZ; (2) good sustainability of public policy businesses; and (3) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities with poor industrial investment return; (2) fast-growing debt from large development pipelines; and (3) medium exposure to contingent risk.

### **Corporate Profile**

Established in 2013, SYIG, formerly known as Shaoyang State-owned Assets Investment and Operation Co., Ltd., became one of the key local infrastructure investment and financing Companies (“LIIFCs”) in Shaoyang City after equity transfer since 2021. The Company is mainly responsible for restructuring of state-owned enterprises in Shaoyang City, land consolidation, and infrastructure construction in Shaoyang ETDZ. It also engages in several commercial activities, including property sales and leasing and industrial investment. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Shaoyang City (“Shaoyang SASAC”) was the ultimate controller of the Company, directly holding 100% stakes of the Company.

### **Rating Rationale**

#### **Credit Strengths**

**Strategic role as the primary state-owned assets operation entity in Shaoyang City with strong regional franchise advantages in developing Shaoyang ETDZ.** SYIG plays a vital role in public policy businesses, such as conducting land consolidation and infrastructure construction projects, especially in Shaoyang ETDZ, with strong regional franchise advantages. Besides, it is also responsible for restructuring of state-owned enterprises and industrial investment in Shaoyang City. The Company has made strong contributions to the local social and economic development. Considering its strategic importance in undertaking public policy

projects in the region, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Good sustainability of public policy businesses.** SYIG's infrastructure construction, land consolidation and state-owned enterprises restructuring businesses are crucial to local social and economic development. We believe SYIG's large pipeline of public policy projects assigned by the local government has demonstrated its leading position in the development of Shaoyang City and Shaoyang ETDZ, ensuring its sustainability of public policy businesses but exerting certain capital expenditure pressure. Nevertheless, funding from policy banks and special government bonds can alleviate part of the investment pressure.

**Solid track record of receiving government payments.** In recognition of its importance as an infrastructure construction platform and state-owned assets operator in Shaoyang City, SYIG has received recurring financial support, including financial subsidies, asset and capital injection from the Shaoyang Municipal Government. Given SYIG's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

#### Credit Challenges

**Medium exposure to commercial activities with poor industrial investment return.** In addition to public activities, SYIG also engages in various commercial activities, such as property leasing and sales, industrial investment and self-operated project construction. We consider SYIG's commercial business exposure to be medium, as its market-driven businesses accounted for around 25-30% of its total assets at the end of March 2024.

**Fast-growing debt from large development pipelines.** The Company's total debt had increased from RMB18.0 billion at end-2021 to RMB21.3 billion as of 31 March 2024, with a relatively high total capitalization ratio of 45.9%. In addition, as of 31 March 2024, its short-term debt accounted for about 31.7% of its total debt, and cash to short-term debt ratio was 0.5x, indicating certain short term debt servicing pressure.

**Medium exposure to contingent risk.** As of 31 March 2024, the Company's external guarantees amounted to RMB6.3 billion, accounting for 25.0% of its net assets. All of the external guarantees are provided to other local state-owned enterprises. We believe that the credit risk of the guarantee is controllable, taking into account the government's support to local state-owned enterprises.

#### Rating Outlook

The stable outlook on SYIG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role in Shaoyang City as the sole infrastructure construction platform in Shaoyang ETDZ.

**What could upgrade the rating?**

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in Company's characteristics enhance local government's willingness to provide support, such as enhanced regional significance and reduced exposure to commercial activities.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in Company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and worsen debt management.

#### **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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