

## Credit Opinion

13 June 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Shangrao City Construction Investment Development Group Company Limited

### Surveillance credit rating report

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

### Summary

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, SCID's rating is constrained by its (1) medium exposure to commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) medium contingent liability risk from external guarantees.

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.

## Rating Drivers

- Essential role in infrastructure construction and land development in Shangrao City
- Moderate sustainability for agency construction projects
- Medium exposure to commercial activities
- Good track record of receiving government payments
- High debt leverage and moderate asset liquidity
- Diversified funding channels with low exposure to non-standard financing
- Medium contingent liability risk from external guarantees

## Rating Sensitivities

### 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.

## Key Indicators

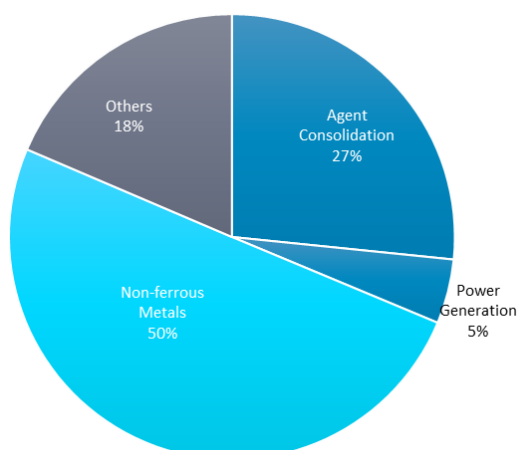
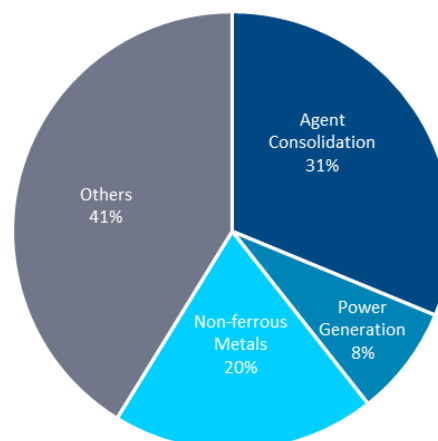
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	115.0	121.0	126.9	128.2
Total Equity (RMB billion)	41.8	42.8	45.8	46.3
Total Revenue (RMB billion)	5.0	5.6	5.6	1.2
Total Debt/Total Capital (%)	62.5	62.5	60.3	60.5

All ratios and figures are calculated using CCXAP's adjustments.

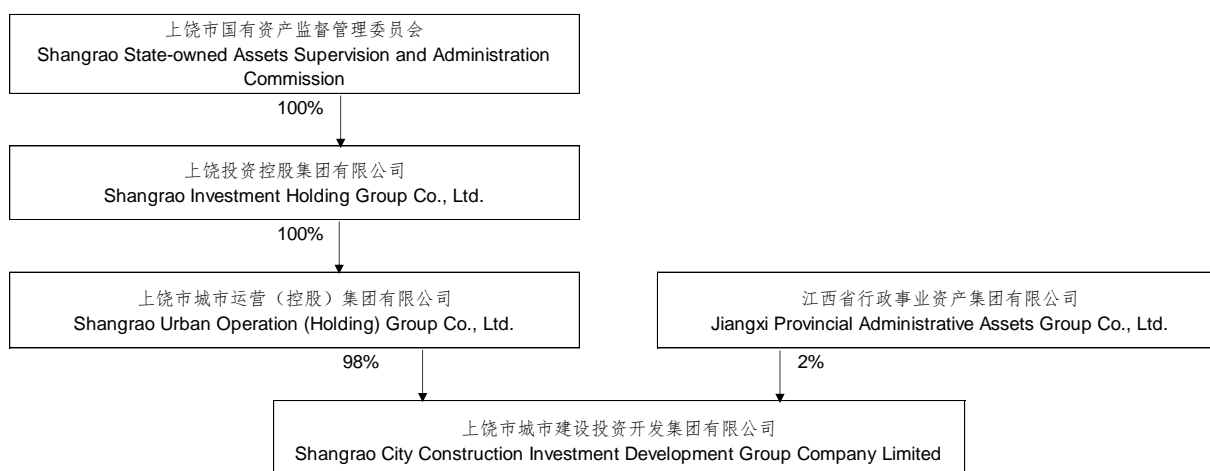
Source: Company data, CCXAP research

## 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.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding and organization chart as of 31 March 2024**

Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe that the Shangrao Municipal Government has a strong capacity to provide support for the Company, given its fifth ranking in terms of economic strength in Jiangxi Province, with good economic growth and moderate fiscal profile.

Shangrao City is a prefecture-level city located in the northeast of Jiangxi Province. The economic strength of Jiangxi Province lies at middle level among all provinces in China. In 2023, Jiangxi Province's Gross Regional Product ("GRP") reached RMB3.2 trillion, ranking 15<sup>th</sup> among all provinces in China, with a year-on-year ("YoY") increase of 4.1%. Its general budgetary revenue increased from RMB294.8 billion in 2022 to RMB306.0 billion in 2023, as a result of a significant increase in tax revenue to RMB 202.2 billion with a relatively high YoY growth rate of 13.0%.

Shangrao City is located in the Yangtze River Delta Economic Area. As an important transport hub in China, Shangrao City has a convenient and advanced transportation network connecting major cities in China. Thanks

to promotions of pillar industries, the economic strength of Shangrao City continued to grow in the past year. In 2023, Shangrao City recorded GRP of RMB340.2 billion, ranking the fifth among 11 prefecture-level cities in Jiangxi Province, with a good economic growth rate of 6.7%. With the ongoing development of the regional economy, Shangrao City's fiscal income has also increased. In 2023, its general budgetary revenue increased by 7.9% YoY to RMB27.1 billion, with tax income accounting for 67.8%, indicating a moderate fiscal stability. However, the fiscal balance of Shangrao City is still weak, with a general budgetary revenue/general budgetary expenditure ratio of 33.2% in 2023. During the same period, Shangrao City had an outstanding direct government debt balance of RMB132.8 billion, accounting for 39.0% of the Shangrao City's GRP. The local government debt scale is expanding at a relatively fast pace, and the overall regional debt pressure is relatively high taking into account of the debt burden of local state-owned enterprises.

#### **Exhibit 4. Key Economic and Fiscal Indicators of Shangrao City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	304.4	331.0	340.2
GRP Growth (%)	9.0	5.1	6.7
General Budgetary Revenue (RMB billion)	23.6	25.1	27.1
General Budgetary Expenditure (RMB billion)	75.2	79.4	81.5
Local Government Debt (RMB billion)	86.9	111.8	132.8

Source: Statistics Bureau of Shangrao City, CCXAP research

### **Government Willingness to Provide Support**

#### **Essential role in infrastructure construction and land development in Shangrao City**

There are four main state-owned assets operation entities in Shangrao City. Shangrao Investment Holding Group Co., Ltd. ("SIHG") is the largest state-owned capital investment platform in Shangrao City, directly holding the equity interests of other three main state-owned platforms, SUOG, Shangrao State-owned Assets Development Group Co., Ltd. and Shangrao Agricultural Culture Tourism Development Group Co., Ltd., each with clear positioning in the development of the region. 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.

#### **Moderate sustainability for agency construction projects**

The agency construction business is sustainable given considerable infrastructure construction projects under construction in the pipeline, but could also exert certain capital expenditure pressure to the Company. However, taking into account the fact that the urbanization of Shangrao City has entered into the advanced stage, we expect the number of infrastructure construction projects of the Company will gradually decline.

SCID conducts infrastructure construction business mainly through agency construction model. The Company undertakes infrastructure construction projects including road, pipe networks and flood control landscaping projects in the urban area of Shangrao City. As of 31 December 2023, the Company had completed 8 key infrastructure construction projects with a total invested amount of RMB6.8 billion, which significantly benefits people's livelihood and promotes the urbanization development in Shangrao City. Meanwhile, the Company had 6 projects under construction with gross investment amount of RMB6.3 billion and an uninvested amount of

RMB2.6 billion; it also had 8 infrastructure construction projects under planning, with a total estimated investment of RMB5.9 billion. Given the sufficient infrastructure projects in the pipeline, we believe the Company's infrastructure construction business has good sustainability.

Besides, the Company also undertakes resettlement housing construction projects under agency construction model. As of 31 December 2023, the Company had 15 resettlement housing projects under construction, with a total estimated investment amount of RMB11.8 billion and an uninvested amount of RMB4.0 billion, indicating large capital expenditure pressure. However, the Company has no proposed resettlement housing project, demonstrating moderate business sustainability for this segment. In addition, the Company has received the repayment amount of only RMB1.1 billion from this business with an invested amount of RMB7.8 billion and a recognized revenue of RMB5.0 billion. It faces fiscal balance problems because of the long payback period for these projects.

Authorized by Shangrao Municipal Government, the Company undertakes land development projects in Shangrao City. The Company signs an agency construction agreement with the entrusted party to consolidate the land. The entrusted party makes payment to the Company based on development costs and markup. As of 31 December 2023, the Company had invested RMB23.1 billion into the land development projects under construction, with collected payment of only RMB2.0 billion, indicating slow progress of government payment. In addition, the Company plans to invest RMB1.6 billion for the next three years, exerting certain future capital needs. Besides, uncertainty exists in this business as it is subject to the local government's policy and the land market conditions.

### **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.

SCID started production and trading of aluminum business in 2020 via acquisition of 30% equity interests of Fujian Minfa Aluminum Co Ltd ("Minfa Aluminum", stock code: 002578.SZ), an A-share listed company, becoming the main income source of the Company. Minfa Aluminum is primarily engaged in the research, development, production, and sales of architectural aluminum, industrial aluminum, and architectural aluminum formwork. However, affected by reduced demand in the construction industry, the revenue scale and gross profit margin of this business has decreased and it is necessary to keep track of the profitability of the business in the future. In 2023, the revenue from production and trading of business achieved RMB2.8 billion, accounting for 50.1% of its total revenue, and the business's gross profit margin was around 5.7%. Meanwhile, the business has a relatively diversified customer base as the sales from the top five customers accounted for 30.0% of the total sales in 2023. However, there is a high concentration risk regarding to upstream suppliers as the top five suppliers accounted for 80.6% of the total procurement in 2023.

SCID participates in photovoltaic power business through its subsidiaries. The Company's photovoltaic projects are the first batch of poverty alleviation photovoltaic projects. As of 31 March 2024, the Company's photovoltaic power stations were mainly located in four districts and counties near Shangrao City, with a total installed capacity of 258.0 MW. The contribution of photovoltaic power business to the Company is low, accounting for only around 5% of total revenue in the past three years. Besides, the revenue of this business relies heavily on government subsidies and related policies. The business' profitability has deteriorated due to the removal of

subsidies for national photovoltaic power generation projects and the impact of fair grid access policies since 2021. Moreover, due to the rising costs caused by the accounting adjustment of asset depreciation since 2023, the gross profit margin of this business has declined, which was 19.5%, 9.38% and -58.68% in 2022, 2023 and 2024Q1, respectively.

The Company also participates in waste-to-energy, expressway operation, sewage treatment, property management, and hotel management businesses, providing limited contribution to the Company's total revenue as a result of relatively small operating scale of these businesses.

### **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. From 2023 to 2024Q1, SIHG had injected capital of RMB2.0 billion into the Company. The local government also has transferred pipe network, investment properties, and equity interests of state-owned enterprise to the Company. Besides, the local government regularly provides subsidies to the Company to support its business operations. From 2021 to 2024Q1, the Company had received subsidies totaling RMB1.5 billion. Besides, the local government also has provided payments for the infrastructure, land development, and resettlement housing construction projects to the Company. As of 31 March 2024, the Company had received total project payments of RMB8.0 billion. Given its essential position in infrastructure construction in Shangrao City, we believe that the local government will continue to provide support to the Company.

### **High debt leverage**

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, the Company has a relatively high short-term debt servicing pressure, as reflected by its cash to short-term debt ratio of 0.1x and the short-term debt to total debt ratio of 34.4% at end-2024Q1. We expect the Company's debt leverage will remain at a high level, given its large capital expenditure needs for its extensive construction projects in the pipeline, which will cause fund occupation due to slow project repayments progress.

### **Moderate asset liquidity**

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. As of 31 March 2024, the inventories and the receivables amounted to RMB78.0 billion, accounting for 60.8% of total assets. The inventories mainly consist of development costs from construction projects and land assets in stock, while the receivables are mainly unreceived project payments from the local government and state-owned enterprises, and on-lending loans to county-level state-owned enterprises. Moreover, as of 31 March 2024, it had RMB9.5 billion worth of restricted asset, accounting for 7.5% of total assets, consisting mainly of investment real estates, fixed assets and intangible assets. Moreover, the Company's investment properties and fixed assets accounted for around 10.6% of its total assets, mainly consisting of land assets using rights, properties for leasing, Shangwu Expressway, and photovoltaic power generating projects, which can generate supplementary income but the contribution is limited as a result of small scale. Overall, the moderate asset liquidity may undermine the Company's financial flexibility.

### **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 and the Company held a total of 28 domestic bonds with total outstanding amount of RMB28.8 billion, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. It is necessary to keep track of the Company's refinancing situation in the debt capital market considering its large debt repayment pressure. Additionally, the Company also has two offshore bonds with total outstanding amount of USD97.0 million. 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.

### **Medium contingent liability risk from external guarantees**

SCID has medium exposure to external guarantee. 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. Among them, the guarantees for Shangrao county-level LIIFCs amounted to RMB1.3 billion, accounting for 16.6% of the total external guarantees. We expect that the contingent liability risk of the Company is manageable, as it has taken counter-guarantee measures in all of the guarantees.

### **ESG Considerations**

SCID assumes environmental risks through its infrastructure construction and waste-to-energy businesses. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, SCID has played a crucial role in the social welfare of Shangrao City by involving the waste-to-energy and sewage treatment businesses.

In terms of corporate governance, SCID's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).



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