

Credit Opinion

16 December 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Shouguang City Construction Investment Development Co., Ltd.

Surveillance credit rating report

CCXAP affirms Shouguang City Construction Investment Development Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Shouguang City Construction Investment Development Co., Ltd. ("SGCC" or the "Company") reflects Shouguang City Government's strong capacity and high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Shouguang City's status as one of the top 100 counties in China, with rapid economic growth and good fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant role in local infrastructure construction, operation of land resources, and provision of essential public services; (2) track record of receiving government payments; and (3) access to diversified funding channels.

However, the rating is constrained by the Company's (1) high exposure to commercial activities; (2) high debt leverage driven by large capital expenditure; (3) increasing contingent risks resulting from external guarantees; and (4) limited standby liquidity buffer.

The stable outlook on SGCC's rating reflects our expectation that Shouguang City Government's capacity to provide support will remain stable, and the Company's characteristics, such as its business profile and financial risks and controls will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Dominant role in local infrastructure construction, operation of land resources, and provision of essential public services
- Track record of receiving government payments
- High exposure to commercial activities
- High debt leverage driven by large capital expenditure
- Increasing contingent risks resulting from external guarantees
- Access to diversified funding channels with limited standby liquidity buffer

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity 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 materially lowered exposure to risky commercial activities and increased public policy status.

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 reduced strategic significance or deteriorated debt management.

Key Indicators

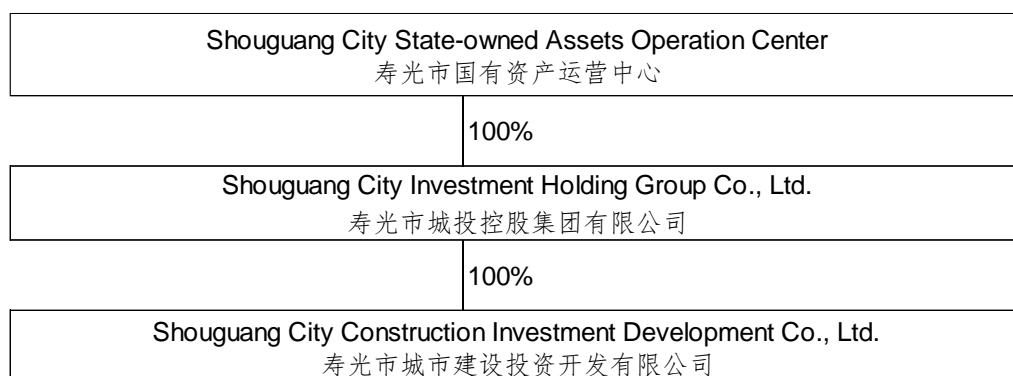
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	21.1	27.8	31.3	28.8
Total Equity (RMB billion)	7.1	10.2	10.2	10.0
Total Revenue (RMB billion)	2.5	2.5	2.1	1.0
Total Debt/Total Capital (%)	58.0	56.6	62.6	57.2

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

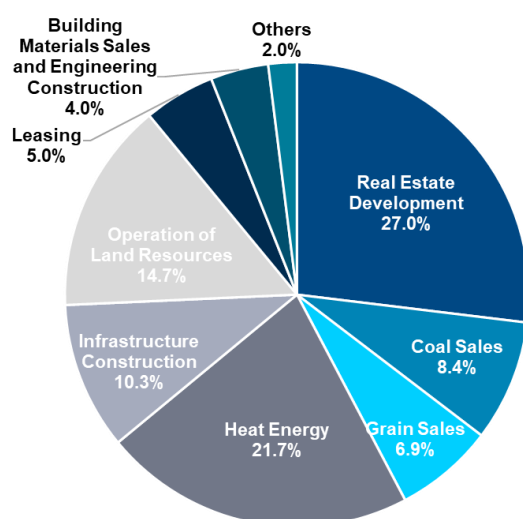
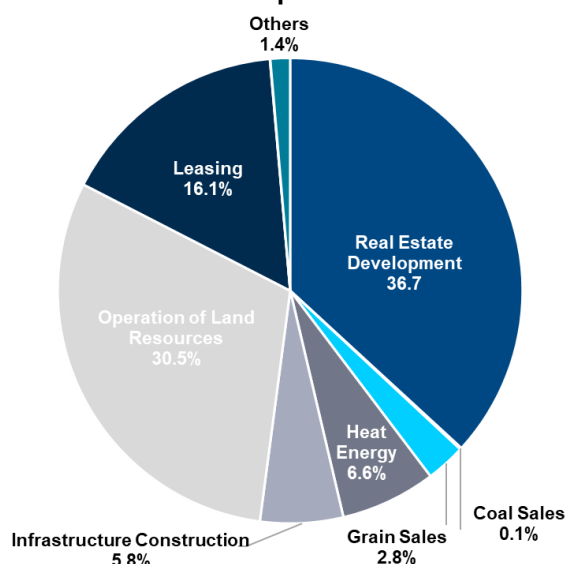
Source: Company data, CCXAP research

Corporate Profile

Founded in February 2008, SGCC is one of the key local infrastructure investment and financing companies ("LIIFCs") in Shouguang City, Weifang City, Shandong Province. The Company engages in the public policy projects, including infrastructure construction, affordable and resettlement housing development, operation of land resources, as well as the provision of heat energy services. The Company also has commercial operations, including residential housing development, property leasing, production and sales of commercial concrete, engineering construction, as well as grain sales. As of 30 September 2024, SGCC was wholly-owned by Shouguang City Investment Holding Group Co., Ltd. and was ultimately controlled by the Shouguang City State-owned Assets Operation Center.

Exhibit 1. Shareholding chart as of 30 September 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023**Exhibit 3. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe Shouguang City Government has a strong capacity to provide support given its good economic fundamentals and fiscal strengths, with a moderate financial sufficiency.

Shandong Province is the third largest province in terms of GRP in China over the past three years, with a solid industrial foundation in logistics, shipbuilding, and marine technology, chemical, automotive and agri-food. In 2023, Shandong Province's GRP further increased to RMB9.2 trillion, a year-over-year ("YoY") increase of 6.0%. At the same time, it recorded a general budgetary revenue of RMB746.5 billion, representing a YoY increase of 5.1%. Shandong Province's GRP amounted to RMB7.2 trillion in the first three quarters of 2024, representing a year-on-year("YoY") growth rate of 5.6%.

Weifang City is located in the east-central part of Shandong Province and is an important regional economic center of central Shandong. After years of development, Weifang City has established a series of traditional advantageous industries, including power equipment, high-end chemicals, food processing, automobile manufacturing, textiles and clothing, as well as intelligent agricultural machinery. Meanwhile, Weifang City also

actively cultivates emerging industries such as new generation information technology, industrial machine tools, and magnetic levitation. In 2023, Weifang City reported a GRP of RMB760.6 billion, a YoY increase of 5.1%, ranking 4th among prefecture-level cities in Shandong Province. In 2024Q3, the GRP of Weifang City was RMB584.0 billion, a YoY increase of 5.9%. In addition, Weifang City has a good fiscal base. It reported a general budgetary revenue of RMB60.8 billion in 2023, ranking 4th among prefecture-level cities in Shandong Province. Tax revenue accounted for 67.5% of its general budgetary revenue on average over the past three years. It also reported a good fiscal balance as seen by a high general budgetary revenue to general budgetary expenditure of 71.7% on average from 2021 to 2023.

Exhibit 4. Key economic and fiscal indicators of Weifang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	701.1	730.6	760.6
GRP Growth (%)	9.7	3.7	5.1
General Budgetary Revenue (RMB billion)	65.7	60.8	60.8
General Budgetary Expenditure (RMB billion)	88.0	84.2	88.9
Local Government Debt (RMB billion)	167.3	191.0	235.9

Source: Weifang Municipal Government, CCXAP research

Shouguang City is located in the middle of Shandong Peninsula. It is one of the top 100 counties in China and is known as the “Vegetable Capital of China” and “Sea Salt Capital of China”. Shouguang City has formed leading industries structure with marine chemicals, building materials, automobiles and parts, paper products and printing and beverages. In 2023, Shouguang City reported a GRP of RMB102.9 billion and general budgetary revenue of RMB10.0 billion, ranking first among all administrative districts of Weifang City. It has good fiscal metrics with a fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 77.1%, while tax contributed 53.2% of its general budgetary revenue in 2023. As of 31 December 2023, Shouguang City reported a total debt balance of RMB27.1 billion and a government debt/GRP ratio of 26.4%.

Exhibit 5. Key economic and fiscal indicators of Shouguang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	95.4	100.2	102.9
GRP Growth (%)	10.5	4.0	5.1
General Budgetary Revenue (RMB billion)	10.3	9.8	10.0
General Budgetary Expenditure (RMB billion)	12.4	12.8	13.0
Local Government Debt (RMB billion)	16.9	18.6	27.1

Source: Statistics Bureau of Shouguang City, CCXAP research

Government’s Willingness to Provide Support

Dominant role in local infrastructure construction, operation of land resources, and provision of essential public services

SGCC is one of the major LIIFCs in Shouguang City that undertakes the role of city development and public construction as well as provision of utility services. The Company is commissioned to carry out various key infrastructure construction and land resource operation projects that are crucial to local economic development and to provide public utility services that benefit the general public.

SGCC carries out infrastructure construction projects under entrusted construction model, and projects mainly include roads, bridges, stadiums, swimming pools and other facilities. After the completion of the construction,

the Shouguang City Government will settle the project payment to cover the construction costs incurred plus a certain degree of markup in return. As of 30 September 2024, the Company had completed 3 infrastructure construction projects with a total investment of approximately RMB770.0 million. It also had 3 projects under construction, with a planned investment of RMB2.3 billion and an uninvested amount of RMB523.0 million. Among them, the Jinguang Street Across Mi River Bridge PPP Project was constructed under the PPP model and was adopted under the government repayment system, with an operation and maintenance period of 10 years.

SGCC has a dominant role in the operation of land resources business. The Company is the designated entity with the right to invest in rural land remediation projects in Shouguang City. It conducts works on deserted salt pans or house sites within the pilot areas, including demolition of existing attachments, resettlement of original residents and finally reclaiming the deserted salt pans or house sites into arable land. The Natural Resources and Planning Bureau of Shouguang City and related authorities will determine the surplus land quotas based on the inspection and measurement of the completed land and distribute them to parties who file the applications. The parties who acquire such surplus land quotas have to pay fees to the Company at guided prices. As of 30 September 2024, the Company was reclaiming and resettling land with a total area of 4,548.6 square meters, with a total investment of RMB1.8 billion and an uninvested amount of RMB271.2 million.

In addition, the Company conducts heat energy business through its subsidiaries, principally engaging in the generation and supply of heat energy as well as the construction and operation of heat supply networks, with a relatively long concession. The Company's heat energy business covers the central and surrounding townships of Shouguang City, and has a relatively high market share in the local heating supply market. The heat energy consumption in Shouguang City is subject to seasonal changes, which means the heat energy demand typically peaks in cooler periods and reduces in the warm season. Due to the public welfare nature of this business, the company is expected to government subsidies every year. Moreover, the Company is expanding its business scale by developing and updating the heating facilities, with a relatively large capital expenditure of RMB1.5 billion and an uninvested amount of RMB1.0 billion as of 30 September 2024. However, the project progress is slowing than expected due to lack of funding.

Track record of receiving government payments

SGCC has a proven track record of receiving recurring support from the Shouguang City Government, such as capital injections, proceeds from government bond issuance, free injections of operating state-owned assets, and subsidies. In 2022, the Company's capital reserves increased by RMB3.0 billion in total after continuous injections of operational asset, equity of companies, and land resources from the local government. SGCC also continues to receive government subsidies of RMB569.3 million in 2023. Moreover, the Company received project payment for infrastructure construction of RMB799.0 million from the local government as of 30 September 2024. In 2024, some subsidiaries were transferred out of SGCC to other LIIFCs in Shouguang City under local government planning, such as Shouguang Shengdu Grain Reserve Co., Ltd. ("Shengdu Grain"). Given the Company's strategic importance in the region, we expect the Company will continue to receive government cash payments and allocations from proceeds of the provincial government's special purpose bonds to support its capital expenditure in public policy-related investments.

Exhibit 6. Government supports from 2021 to 2023

(RMB million)	2021FY	2022FY	2023FY
Government Subsidies	351	458	569
Government Payments	520	-	-
Capital Injections			
- Cash	-	-	-
- Assets	998	3,022	-
Total	1,869	3,480	569

Source: Company information, CCXAP research

High exposure to commercial activities

Apart from public-related activities, SGCC also engages in diversified commercial activities including real estate development, property leasing, production and sales of commercial concrete, engineering construction, and grain sales. As the majority of the Company's commercial businesses are subject to changes in the property market, subsequent project development and relevant income may experience higher volatility, particularly during the downturn of China's property market. Considering the difficulty in obtaining direct support from the government for commercial activities, the commercial activities may constrain the Company's credit profile and will inevitably expose the Company to more operational and financial risks.

SGCC's real estate development business accounted for a high proportion of its total revenue. Apart from resettlement housing and affordable housing, the Company mainly participates in real estate development projects including residential and commercial buildings, as well as rehabilitation centers. It is noteworthy that the Company's real estate development is highly concentrated in Shouguang City, which is easily affected by changes in local regulatory policies and economic conditions. As of 30 September 2024, more than 85% of the completed residential buildings had been sold. At the same time, the Company had 6 projects under construction, with a total investment of RMB4.7 billion and an uninvested amount of RMB2.4 billion. The combined effects of large-scale construction and high destocking pressure may increase its capital expenditure pressure amid the decelerated property market in China.

The Company's other commercial activities are closely related to the real estate industry. The property leasing business it operates includes some of its commercial properties in Shouguang City, such as office buildings and schools, as well as the self-constructed commercial buildings. As of 30 September 2024, SGCC had a total leasable area of 4.2 million square meters, and around 90% has been leased out. The Company's anchor tenants include a number of governmental agencies, enterprises and public institutions. In addition, the Company participates in the production and sales of commercial concrete and engineering construction in the urban area of Shouguang City and surrounding areas through its subsidiaries, showing a high dependence on property projects in the region. Revenue from the sale of commercial concrete was RMB60.2 million in 2023, a significant decrease from RMB205.7 million in 2022.

In addition, the Company started grain sale business in 2022 through its subsidiaries, mainly Shengdu Grain, providing additional income to the Company. The grain sale business was adopted on a market-oriented operation model. The Company purchases the grain from the public and then sells nationwide according to the market demand. However, the customers of the grain sales business were mainly private-owned enterprises, and are easily affected by changes in the market. In June 2024, as the Company transferred out 100.00% of the equity of Shengdu Grain, the revenue from this business sector will be lower in the future.

High debt leverage driven by large capital expenditure

In the past few years, SGCC's total debt has increased with the continuous expansion of its businesses. As of 30 September 2024, the Company's total debt slightly increased to RMB13.4 billion from RMB13.3 billion as of end-2022, and the total capitalization ratio stayed at a relatively high level of 57.2%. Meanwhile, the Company's liquidity profile is moderate. As of 30 September 2024, the Company's short-term debt amounted to RMB4.8 billion, accounting for 36.0% of the total debt.

Furthermore, the Company has large investment plans in its diversified businesses including infrastructure construction, operation of land resources, supply of heat energy, and real estate development. As of 30 September 2024, it had multiple projects under construction or planning, with a main focus on real estate projects. We believe the Company's ongoing investment in real estate projects will be mostly funded by external debts, as it is more difficult to obtain direct financial support from the government for its commercial activities. As of 30 September 2024, JZCI's restricted assets accounted for 19.0% of the total assets, mainly for financing activities.

Increasing contingent risks resulting from external guarantees

SGCC's credit profile is constrained by its relatively large external guarantees relative to its net assets. As of 30 September 2024, the Company's outstanding external guarantees increased to RMB4.7 billion, accounting for 46.5% of its net assets, of which the majority were provided to local state-owned enterprises. There were two private-owned enterprises, with total external guarantees of RMB158.8 million, accounting for 3.4% of the total external guarantees. These two private-owned enterprises are listed as judgement debtors or involved in cases with final proceeding. The Company has not yet taken any counter-guarantee actions for external guarantees of these two companies as of 30 September 2024. Relatively large guarantee exposure may increase SGCC's financial risks, which are caused by the credit risk of guarantees, especially for privately-owned enterprises during the economic downturn. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks.

Access to diversified funding channels but with limited standby liquidity buffer

SGCC has access to various sources of funding, including bank loans and onshore and offshore bond financing. The Company maintains good long-term relationships with large domestic banks such as Agricultural Development Bank of China, China Construction Bank, Evergrowing Bank Co., Ltd., etc. As of 30 September 2024, the Company had total bank credit facilities of RMB12.2 billion, with the available portion being RMB485.7 million, showing limited standby liquidity. SGCC had moderate exposure to shadow banking lending, as its proportion in non-standard products with relatively high cost such as financial leasing was less than 10%. The Company also participates in onshore and offshore bond markets, and the differentiation of the bond market financing environment is still a concern to the Company's financing costs. From 2023 to 2024Q3, the Company raised 7 tranches of onshore bonds, with the coupon rates from 4.4% to 7.5%. Meanwhile, the Company issued 3 tranches of offshore bonds, with coupon rates from 8.5% to 9.0%.

ESG Considerations

SGCC assumes environmental risks through its infrastructure, real estate and land resources development projects. 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, SGCC has played a crucial role in the social welfare of Shouguang City by participating in the provision of heating services as well as the construction of public infrastructure projects including roads, bridges, stadiums, swimming pools, and other facilities.

In terms of corporate governance, SGCC'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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