

Credit Opinion

25 August 2023

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

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Shangrao City Construction Investment Development Group Company Limited

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Shangrao City Construction Investment Development Group Company Limited, with stable outlook

Summary

The BBB_g long-term credit rating of Shangrao City Construction Investment Development Group Company Limited (“SCID” or the “Company”) reflects Shangrao Municipal Government’s (1) strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Shangrao Municipal Government’s capacity to provide support reflects its status as the fifth largest city in terms of economic strength in Jiangxi Province, with fast economic growth and moderate fiscal stability.

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) good access to funding.

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 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
- Medium exposure to commercial activities
- Good track record of receiving government payments
- High debt leverage and moderate asset liquidity
- Good access to funding
- 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

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	100.9	115.0	121.0	123.8
Total Equity (RMB billion)	35.8	41.8	42.8	42.9
Total Revenue (RMB billion)	4.9	5.0	5.6	1.4
Total Debt/Total Capital (%)	66.7	62.5	62.5	63.8

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

Source: 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 production and trading of aluminum, electricity generation, expressway operation, property management, and hotel management in Shangrao City. As of 31 March 2023, Shangrao Urban Operation (Holding) Group Co., Ltd. ("SUOG") held 96.67% of the Company's stake, while Jiangxi Provincial Administrative Assets Group Co., Ltd. held the remaining 3.33%. Shangrao State-owned Assets Supervision and Administration Commission ("Shangrao SASAC") was its ultimate controller.

Exhibit 1. Revenue structure in 2022

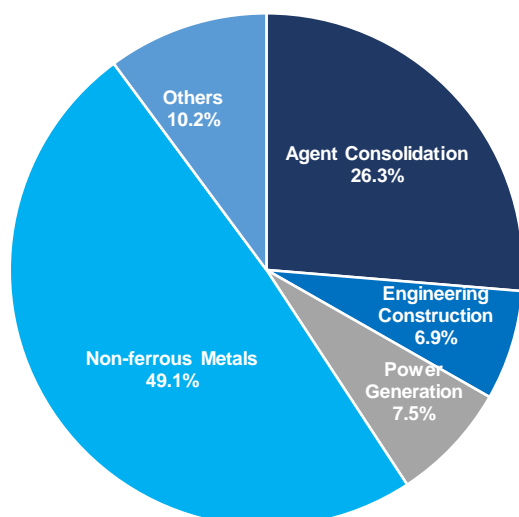
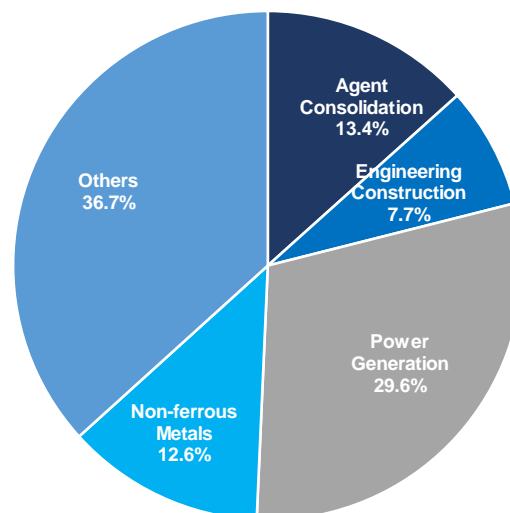
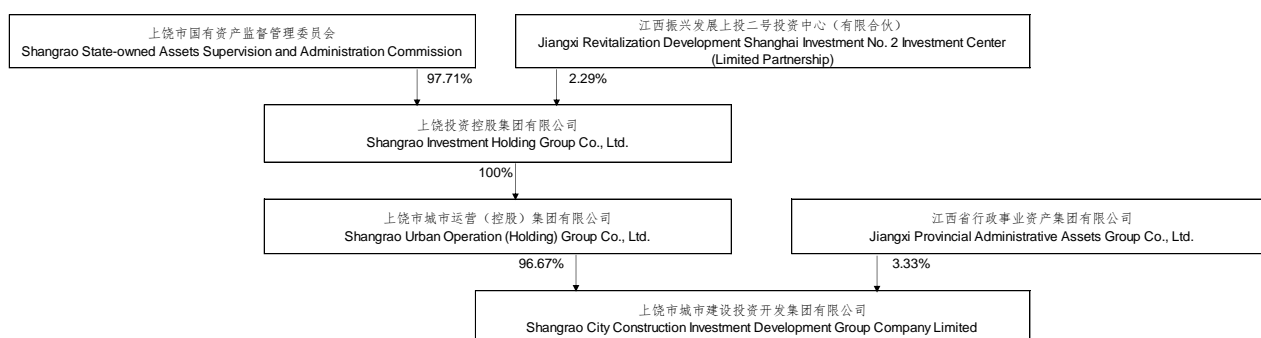


Exhibit 2. Gross profit structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Shareholding and organization chart as of 31 March 2023



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 status as the fifth largest city in terms of economic strength in Jiangxi Province, with fast economic growth and moderate fiscal stability.

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 2022, Jiangxi Province's Gross Regional Product ("GRP") reached RMB3.2 trillion, with a year-on-year ("YoY") increase of 4.7%. Its general budgetary revenue was RMB294.8 billion, with a relatively high YoY growth rate of 4.8%.

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. With ongoing development of the industrial sector, the economic strength of Shangrao City continued to grow in the

past year. Its GRP increased from RMB262.4 billion in 2020 to RMB331.0 billion in 2022, raking the fifth among 11 prefecture-level cities in Jiangxi Province. With the ongoing development of the regional economy, Shangrao City's fiscal income has also increased. In 2022, its general budgetary revenue increased to RMB25.1 billion compared with RMB22.7 billion in 2020, with tax income accounting for 67.3%, indicating a moderate fiscal stability. However, its fiscal balance is relatively weak, with a general budgetary revenue/general budgetary expenditure ratio of 31.1% on average over the past three years. Accordingly, the local government relies on transfer payments from upper-tier government and land transfer revenue. In addition, the Shangrao Municipal Government has outstanding government debt of RMB111.8 billion at end-2022, accounting for 33.8% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Shangrao City

	2020FY	2021FY	2022FY
GRP (RMB billion)	262.4	304.4	331.0
GRP Growth (%)	4.1	9.0	5.1
General Budgetary Revenue (RMB billion)	22.7	23.6	25.1
General Budgetary Expenditure (RMB billion)	75.0	75.2	79.4
Local Government Debt (RMB billion)	69.0	86.9	111.8

Source: Statistics Bureau of Shangrao City, CCXAP research

Government Willingness to Provide Support

Essential role in infrastructure construction and land development in Shangrao City

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 an important 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. The Company has undertaken and completed 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 is unlikely to be replaced in the foreseeable future.

As an important infrastructure construction entity in Shangrao City, SCID undertakes infrastructure construction projects including road, bridge and transportation hub construction, and park renovation in the urban area of Shangrao City. The Company is responsible for the financing and construction of such projects, and, pursuant to the agency construction agreement, the relevant government agency will repurchase the completed infrastructure projects at a price with certain profit margin. As of 31 March 2023, the Company had 16 key infrastructure construction projects under construction or planning, with a total estimated investment of RMB14.9 billion and an uninvested amount of RMB9.6 billion. The large amount of projects can ensure the business sustainability, but exerting high capital expenditure pressure to the Company.

Besides, the Company also undertakes resettlement housing construction projects under agency construction model. The Company has to finance the projects itself to pay compensation to the relocated households and the construction costs. The entrusting parties will make payment based on construction costs plus certain percentage of markup. The completed residential apartments will be sold at the government designated price. As of 31 March 2023, the Company had 15 resettlement housing projects under construction, with a total

estimated investment of RMB11.8 billion and an uninvested amount of RMB4.1 billion, indicating large future capital needs. However, the Company has no proposed resettlement housing project, demonstrating moderate business sustainability for this segment.

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 March 2023, the Company had invested RMB28.1 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 RMB2.7 billion for the next three years, exerting certain future capital needs. However, the Company has no land development project under planning, indicating moderate business sustainability for this segment.

Overall, the agency construction business is sustainable given considerable infrastructure construction projects in the pipeline. However, they also exert great pressure on the Company's capital expenditure.

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 is medium, accounting for 20% to 30% of its total assets.

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. Minfa Aluminum is primarily engaged in the research, development, production, and sales of architectural aluminum, industrial aluminum, and architectural aluminum formwork. This business becomes the main income source of the Company. In 2022, the revenue from production and trading of business increased by 24.5% to RMB2.8 billion, accounting for 50% of its total revenue. However, affected by intensified market competition, Minfa Aluminum's net profit decreased by 38.7% YoY in the first quarter of 2023. The sales from the top five customers accounted for 21.9% of the total sales, indicating relatively diversified customers. However, the top five suppliers accounted for 82.9% of the total procurement, indicating a high concentration risk.

SCID participates in photovoltaic power business and waste-to-energy business through its subsidiaries. The Company's photovoltaic projects are the first batch of poverty alleviation photovoltaic projects. As of 31 March 2023, the Company's photovoltaic power stations were mainly located in four districts and counties, with a total installed capacity of 256.55 MW. The photovoltaic power generated will be sold to the state-owned grid companies in the corresponding districts and counties. The revenue of photovoltaic power business has shown growing trend, achieving RMB280 million in 2022. However, the revenue of this business relies heavily on government subsidies.

SCID's waste-to-energy business involves the incineration of waste for power generation and landfilling of residual waste. The Company mainly collects waste from Shangrao City and its neighboring counties, and then incinerates them to generate electricity using waste heat. It also operates landfills to dispose the waste that cannot be incinerated. The revenue from waste-to-energy treatment has grown steadily since its commencement in 2021, providing supplemental income to the Company.

The Company also participates in expressway operation, sewage treatment, property management, and hotel management businesses. However, asset and income scale from these businesses are small, contributing less to the Company's income.

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 2020 to 2022, SIHG had injected capital of RMB1.5 billion into the Company, and the local government had transferred pipe network, investment properties, and equity interests of state-owned enterprise to the Company. The local government regularly provides subsidies to the Company to support its business operations. From 2020 to 2022, the Company had received subsidies totaling RMB1.2 billion. Besides, the local government also makes payments for the infrastructure, land development, and resettlement housing construction projects to the Company. As of 31 March 2023, the Company had received total project payments of RMB7.9 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 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 RMB62.7 billion at end-2020 to RMB72.6 billion at end-2023Q1, with a relatively high total capitalization ratio of 63.8%. 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 33.2% at end-2023Q1. We expect the Company's debt leverage to remain at a high level, given its large capital expenditure needs for its extensive construction projects in the pipeline.

In addition, SCID's asset liquidity is considered moderate as reflected by its assets are primarily composed of inventories and receivables, both with relatively low liquidity. As of 31 March 2023, the inventories and the receivables amounted to RMB75.3 billion, accounting for 60.8% of total assets. The inventories mainly consist of development costs from construction projects, 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 2023, it had RMB8.3 billion worth of restricted asset, accounting for 6.7% of total assets, consisting mainly of accounts receivable and investment real estates. The moderate asset liquidity may undermine the Company's financial flexibility.

Good access to funding

SCID has good access to funding from banks and bond market, with bank loans and bonds accounting for about 30% and 50% of total debt. The Company has sufficient standby liquidity. As of 31 March 2023, it had obtained total credit facilities of RMB57.7 billion from diversified domestic policy banks and commercial banks, with available amount of RMB28.4 billion. The Company also has access to debt capital markets. As of 31 July 2023, the Company holds a total of 33 domestic bonds with total outstanding amount of RMB32.5 billion, including various bond types such as corporate bonds, MTNs, SCPs, and PPNs. Additionally, the Company also has offshore bonds with total outstanding amount of USD300 million. The Company has low reliance on non-standard financing, accounting for less than 10% to total debt.

Medium contingent liability risk from external guarantees

SCID has medium exposure to external guarantee. As of 31 March 2023, the Company's external guarantee amounted to RMB11.0 billion, accounting for about 25% 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 ETDZ and county-level LIIFCs amounted to RMB2.9 billion, accounting for 26.7% 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 \(July 2022\)](#).

Appendix

Exhibit 5. Peer Comparison in 2023Q1

	Shangrao Innovation Development Industry Investment Group Co., Ltd.	Shangrao City Construction Investment Limited Surveillance
Long-Term Credit Rating	BBB _g -	BBB _g +
Shareholder	Shangrao State-owned Assets Supervision and Administration Commission 55%; Shangrao ETDZ Administrative Committee 45%	Shangrao State-owned Assets Supervision and Administration Commission
Positioning	Responsible for infrastructure construction, industrial investment, water supply and sewage treatment businesses in Shangrao ETDZ	Responsible for infrastructure construction, land development, resettlement housing construction as well as commercial businesses in Shangrao City
Total Asset (RMB billion)	89.0	123.8
Total Equity (RMB billion)	39.3	42.9
Total Revenue (RMB billion)	2.4	1.4
Total Debt/Total Capital (%)	53.3	63.8

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 March 2023.

Source: CCXAP research

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