

Credit Opinion

27 September 2023

Ratings

Senior Unsecured Debt Rating	A _g
Long-Term Credit Rating	A _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Suzhou SND Group Company Limited

Initial credit rating report

CCXAP assigns long-term credit rating of A_g to Suzhou SND Group Company Limited, with stable outlook.

Summary

The A_g long-term credit rating of Suzhou SND Group Company Limited (“SNDG” or the “Company”) reflects (1) Suzhou New District (“SND”) Government’s very strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the SND Government’s capacity to support reflects SND’s good economic and fiscal strengths with steady growth. SND ranked among the top 20 national high-tech zones in China in 2022, with gross regional production (“GRP”) exceeding RMB170 billion.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership and direct management by the SND Government; (2) strong strategic importance in the development of SND; (3) solid government support such as ongoing capital injections and subsidies; and (4) good access to low-cost and stable funding.

However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities, which mainly includes property development and financial investment; and (2) fast expansion on the debt scale that exerts management pressure.

The stable outlook on SNDG’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its strategic position in the development of SND.

Rating Drivers

- Strong strategic role in the development of SND
- Medium risk exposure to commercial activities
- Solid government support such as ongoing capital injections and subsidies
- Moderate debt management with fast expansion on the debt scale
- Good access to low-cost and stable funding
- Medium exposure to contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the SND Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increased debt management and decreased risk exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the SND Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced regional significance or deteriorated refinancing ability.

Key Indicators

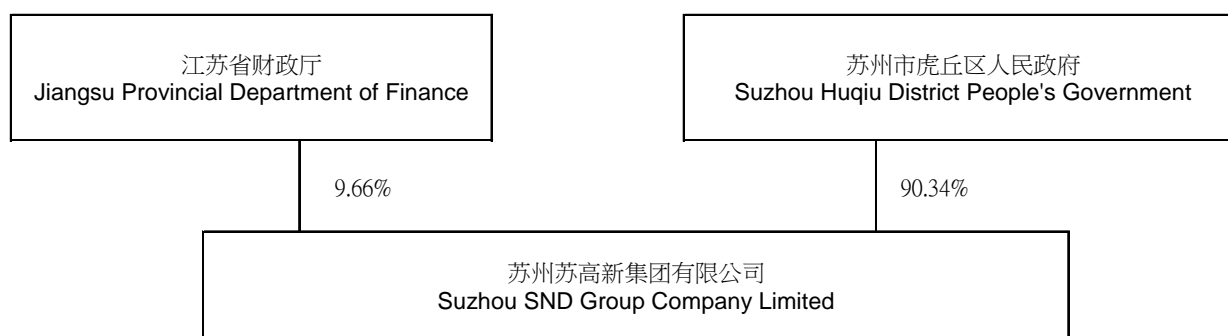
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	110.0	134.1	146.6	148.2
Total Equity (RMB billion)	26.6	30.9	35.6	35.7
Total Revenue (RMB billion)	12.7	15.1	14.4	7.0
Total Debt/Total Capital (%)	71.9	75.4	76.9	78.1

All ratios and figures are calculated using CCXAP's adjustments.
Source: Company information, CCXAP research

Corporate Profile

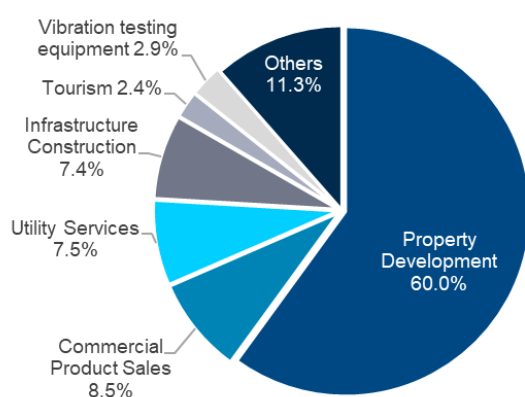
Established in 1990, SNDG is the largest investment, financing and operating entity for the municipal development in Suzhou New District (also called Huqiu District), primarily focusing on infrastructure construction within and surrounding the SND. The Company has a diversified business scope including property development, industrial park construction, public utility services, commercial product sales, tourism, vibration testing equipment and other business operations such as property leasing, construction project contracting services and financial services. It carries out businesses mainly through its subsidiaries, including listed companies Suzhou New District Hi-tech Industrial Co., Ltd. ("SNDHI", Stock Code: 600736.SH) and Suxin Joyful Life Services Co., Ltd. (Stock Code: 2152. HK). As of 30 June 2023, Suzhou Huqiu District People's Government ("Huqiu District Government") held 90.34% of its shares and the Jiangsu Provincial Department of Finance held the remaining 9.66%.

Exhibit 1. Shareholder Structure as of 30 June 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the SND Government has a very strong capacity to provide support given its good economic and fiscal strengths with steady growth. SND ranked among the top 20 national high-tech zones in China in 2022.

Suzhou City is a prefecture-level city located in the southeast of Jiangsu Province and is regarded as one of the top Chinese cities for its advanced economic and social developments. Suzhou City has a rich historic background and is known for its canals, classical gardens and bridges. Suzhou City owns 14 national hi-tech zones, the most national hi-tech zones in one single city in China. Supported by its good location advantages, completed industrial chain, intensive layout of national-level carriers, world-class traditional cultural resources and water ecological resources, Suzhou City's economic strength has long been ranked first in Jiangsu Province. In 2022, Suzhou City recorded a GRP of RMB2,395.8 billion with a year-over-year ("YoY") growth rate of 2.0%, and the general budgetary revenue amounted to RMB232.9 billion. During the first half year of 2023, the GRP of Suzhou City rose by 4.7% to around RMB1,145.8 billion compared to 2022H1. Tax revenue in Suzhou City has been stable, accounting for over 80% of general budgetary revenue over the past three years, despite the effect of China's unprecedented tax rebate program. Suzhou City also has a strong fiscal balance and good debt profile with a self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of over 90% in the past three years and a low debt/GRP ratio of 7.4% as of the end of 2022.

Exhibit 3. Key Economic and Fiscal Indicators of Suzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,017.0	2,271.8	2,395.8
GRP Growth (%)	3.4	8.7	2.0
General Budgetary Revenue (RMB billion)	230.3	251.0	232.9
General Budgetary Expenditure (RMB billion)	226.4	258.4	258.9
Local Government Debt (RMB billion)	153.2	158.8	177.2

Source: Suzhou Municipal Government, CCXAP research

Established in 1992 and located in the west of Suzhou City, SND was one of the first National High-tech Industrial Development Zones approved by the State Council of China. After years of development, SND Government and Huqiu District Government merged into one organization with their respective names retained. SND covers an area of 2,233,600 sq.km. and focuses on the construction of three featured functional areas, namely Shishan Business Innovation Area, Xushuguan Advanced Manufacturing Area and Taihu Science City Area. SND has developed two pillar industries, new generation information technology and high-end equipment manufacturing, and other five emerging industries including photon, medical device, integrated circuit, software and information technology as well as green low carbon has developed rapidly in recent years. SND has strong economic and fiscal strengths with steady growth. In 2022, the GRP of SND increased by 3.0% to RMB176.6 billion; the general budgetary revenue increased by 0.2% excluding the impact of tax rebates. SND Government also has a good fiscal and debt profile. Over the past three years, tax revenue contributed more than 85% to general budgetary revenue and self-sufficiency ratio above 120%. As of the end of 2022, the local government's outstanding debt amounted to RMB8.7 billion, accounting for about 4.9% of GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Suzhou New District (Huqiu District)

	2020FY	2021FY	2022FY
GRP (RMB billion)	144.6	167.6	176.6
GRP Growth (%)	3.6	10.0	3.0
General Budgetary Revenue (RMB billion)	17.5	19.2	18.2
General Budgetary Expenditure (RMB billion)	14.4	15.3	13.3
Local Government Debt (RMB billion)	8.7	8.6	8.7

Source: Suzhou New District (Huqiu District) Government, CCXAP research

Government's Willingness to Provide Support**Strategic role in the development of SND**

SNDG is the largest investment, financing and operating entity for municipal development in the SND, focusing on infrastructure construction business. The Company has been designated to undertake infrastructure construction projects, construction of resettlement housing in the SND, and provision of water supply and sewage treatment with a strong regional monopoly position. The Company also plays a vital role in promoting industrial development such as financial investment and construction of industrial parks. In view of SNDG's strategic role in the development of local industries and social development, we believe that the potential substitution from other state-owned enterprises is relatively low and government support is very likely in the near future.

SNDG has undertaken and completed a number of strategically important infrastructure construction and resettlement housing projects in SND since its establishment, including the construction of roads, bridges,

drainage systems and other public facilities. Such projects are undertaken mainly through agency construction, Public-Private Partnership (“PPP”) and self-operate mode. Key projects include Jinhu resettlement housing, Shishan Square, Suzhou Campus of Nanjing University and urban renewal projects such as the integrated circuit industrial park. As of 31 March 2023, the Shishan Square project, the only PPP project, with a total investment of RMB3.6 billion and an uninvested amount of around RMB2.0 billion, is under Build-Operate-Transfer (“BOT”) mode and relies on operation revenue and government subsidies to balance its initial investment. Meanwhile, the Company had key infrastructure projects under construction with a total planned investment of RMB14.7 billion. Among them, the Suzhou Campus of Nanjing University (West Campus) project with a total investment of around RMB7.0 billion is one of the key agent construction projects and will be prepaid by the Suzhou City Government and SND Government in advance.

SNDG is the sole entity that provides water and sewage treatment in the SND. The Company operates 2 water plants with a designed capacity of 540 thousand tons per day, as well as 5 sewage plants and 32 sewage pumping stations with a total processing capacity of 280 thousand tons per day. The public utilities business is relatively stable and generates recurring income. As of 31 March 2023, the Company has provided water to more than 313 thousand households. As of the end of 2022, the Company has invested around RMB436 million in projects to increase sewage daily capacity of 80 thousand tons.

Medium risk exposure to commercial activities

SNDG diversified into other business segments such as property development, property leasing, financial investments, financial services, tourism, commercial product sales and vibration testing equipment production. Based on our assessment, its exposure to commercial activities is relatively large. Considering some activities that are associated with the Company’s strategic role in the local industrial investment and economic development and its good operating track record, its risk exposure to commercial activities is considered medium.

Property development business in particular accounts for a large proportion of the Company’s commercial activities, accounting for more than 60% of revenue from 2020 to 2022. It mainly involves constructing and selling commercial housing within the SND and Suzhou Industrial Park mainly through its subsidiary, SNDHI. Most commercial housing projects are cooperated with other property developers and SNDHI mostly maintains the financial control over the project companies. Influenced by external factors such as policy change and market conditions, it saw fluctuations in the newly started construction area, completed area and contracted sales area over the past three years, but the average settlement price still showed a steady growth trend. As of 31 March 2023, the sale ratio of the main completed projects with a total saleable area of around 656,000 square meters was above 64%, and most of the capital was repatriated. However, the projects under construction and planning with an uninvested amount of around RMB29.5 billion place certain capital pressure on the Company. At the same time, the Company had 5 plots of land reserves with a total area of 264,000 square meters which were newly acquired in 2022, and all land acquired before 2022 has been used. The Company is also engaged in industrial property development within and outside SND such as Liyang City, Zhangjiagang City and Changsu City in Jiangsu Province. For the projects outside SND, the Company mainly through sales to divert investment back. Overall, the Company maintains a relatively strong market competitiveness in the property development business in the SND.

SNDG also has large investments in debt instruments, equity instruments and funds with assets of approximately RMB26 billion, accounting for 17.5% of total assets as of 30 June 2023. Meanwhile, the investment business brings good returns which increased the operating profit by RMB1.2 billion during the first

half of 2023. However, financial investment has larger commercial element and exposes the Company to certain business risk. Direct equity investments mainly include financial institutions such as the Bank of Hangzhou and Xiamen International Bank, and associates or joint ventures related to its core business such as construction. The Company engages in industrial investment mainly through Suzhou New District Financial Holdings Corporation (“SNDFH”) with net assets of RMB8.6 billion as of 31 March 2023. SNDFH mainly acts as an LP to invest in different private equity funds, aiming to promote the development of local emerging industries including new generation information technology, biomedicine and medical instruments, green and low carbon as well as digital finance industry. As of 31 March 2023, SNDFH and its equity funds have withdrawn from 195 projects with an investment amount of RMB3.7 billion through public market listing, acquisition, transfer and management buyback.

SNDG engaged in financial services such as small loans, commercial factoring, sale and leaseback, financial leasing and direct leasing businesses mainly through SNDFH. The Company also owns and operates rich properties including factories and office buildings and has rented out more than 2 million square meters of properties, which brings recurring income to the Company.

Solid government support such as ongoing capital injections and subsidies

SNDG has a good track record of receiving government support in various forms such as project allocation, operating subsidies, capital injections and government payments for construction projects. For example, from 2020 to 2023H1, the Company received a total of around RMB540 million in subsidies. In 2022, the local government injected RMB100 million in cash into the Company and agreed to convert the capital injected in past year into registered capital, which increased its registered capital by RMB530 million in total. In addition, since 2019, the Zhenhu Street Government has allocated construction funds for new projects in Western Ecological Tourism Resort on a monthly basis, so that the Company no longer raised funds itself. Given its strategic position in the development of SND, we expect the Company will continue to receive government support in the next 12-18 months.

Moderate debt management mitigated by good access to funding

SNDG has moderate debt management because of rapid debt growth mainly in its infrastructure construction and property development. Its total debt (including perpetual debts) increased notably to RMB101.3 billion as of 30 June 2023 from RMB61.2 billion as of 31 December 2020. As of the same date, its total capitalization ratio also increased gradually to 78.1%. In addition, as the short-term debt increased, the cash to short-term debt ratio decreased to 0.4x from 0.7x. We expect that SNDG’s financial leverage will remain at a relatively high level because the Company has a large investment plan for projects in infrastructure construction and property development. Moreover, the Company’s restricted assets amounted to RMB24.8 billion, accounting for around 16.7% of total assets, which reduces its financial flexibility to a certain extent.

Exhibit 6. Key projects under construction and planning as of 31 March 2023

Project Type	Budgeted Amount	Invested Amount	Outstanding Amount
	(RMB billion)	(RMB billion)	(RMB billion)
Projects Under Construction			
Infrastructure Construction	18.3	4.8	13.5
Commercial Property Development	24.4	15.0	9.4
Project Under Planning			
Commercial Property Development	20.1	-	20.1
Total	62.8	19.8	43.0

Source: Company information, CCXAP Research

SNDG has multiple low-cost financing channels through bank loans and bond issuances. The Company maintains a good relationship with large domestic banks. As of 30 June 2023, it has obtained credit facilities of around RMB92.5 billion from banks, of which 37.5% were uncommitted. SNDG has a good track record in both offshore and onshore debt capital markets and actively issues innovative financial products. It has issued different financial products in the domestic bond market such as SCPs, CPs, MTNs, PPNs and perpetual instruments. For example, the Company issued a tranche of seven-year corporate bond at a coupon rate of 3.38% to raise RMB700 million in July 2023. In 2020, its subsidiary, SND International (BVI) Co., Ltd. ("SNDI"), issued an offshore bond at a coupon rate of 2.7% to raise USD300 million, and the Company provided a keep well and liquidity support deed. However, the large portion of direct financing exposes the Company greater to the change in the debt market. The Company had manageable exposure to nonstandard borrowing, which was less than 5% of total debt.

Medium exposure to contingent risk

The Company had certain contingent risk regarding its external guarantees and guarantee business, which could potentially increase its repayment obligations. As of 30 June 2023, the total amount of external guarantee (excluding the exposure to its guarantee business) was RMB5.1 billion, accounting for around 18.0% of its net assets (excluding perpetual debts). All such guarantees were provided to the local important state-owned enterprises. The Company is engaged in guarantee businesses through its subsidiary. As of 31 March 2023, the outstanding balance of the guarantee business amounted to around RMB3.7 billion which were mainly loan guarantees, and the provision coverage ratio was 278.9%. The guarantee business concentrated on its Top 10 clients, each of whom provided counter-guarantee measures, and the maximum single guarantee amount was RMB50 million. The compensation ratio in 2022 was low at 0.36%.

ESG Considerations

SNDG is exposed to environmental risks because it has undertaken construction projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close monitoring during the construction phase.

SNDG bears social risks as it plays a crucial role in the social welfare of the residents in the Suzhou High-tech Zone. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

SNDG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the SND Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

SNDG's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic position in the development of SND, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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