

## **CCXAP affirms Shandong Public Holdings Limited's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 21 August 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Shandong Public Holdings Limited's ("SDPH" or the "Company") long-term credit rating at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of SDPH reflects (1) the Jining Municipal Government's very strong capacity to support, and (2) high willingness to support, based on our assessment of the Company's characteristics. Our assessment of Jining Municipal Government's capacity to support reflects its status as the 6<sup>th</sup> largest prefecture-level city ranked by gross regional production ("GRP") in Shandong Province over the past three years, with improving economic and fiscal strength.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strong regional franchise in the public utility services of Jining City; and (2) proven track record of receiving government support. However, the rating is constrained by the Company's (1) high exposure to commercial activities; and (2) increasing debt burden driven by large capital expenditure.

### **Corporate Profile**

Founded in 1993, SDPH is one of the key local state-owned enterprises ("SOEs") in Jining City. The Company has a strong position in the public utility services of Jining City, including water supply, sewage treatment, and heat supply. It also conducts other commercial businesses including product sales, engineering construction, and property development. As of 31 March 2024, the Company was wholly owned and controlled by the State-owned Assets Supervision and Administration Commission of Jining Municipal Government.

### **Rating Rationale**

#### **Credit Strengths**

**Strong regional franchise in the public utility services of Jining City.** SDPH is one of the major local SOEs in Jining City under the control of Jining Municipal Government, and has a strong position in the public utility services and infrastructure construction in Jining City. The Company primarily engages in public utility services, including water supply, sewage treatment, and heat supply, which has strong regional monopolistic advantages and plays a key role in the public welfare of the residents in Jining City.

**Proven track record of receiving government support.** As the urban operator of Jining City, SDPH serves an important public policy function and is strategically important to local social and economic development. The Company has a strong track record of receiving government support over the past three years, mainly in operating subsidies, capital injections and specialized government bond. From 2023 to 2024Q1, the Company continuously received operating subsidies from the local government.

### Credit Challenges

**High exposure to commercial activities.** Apart from public-related activities, SDPH also engages in commercial activities such as engineering construction and property development businesses. Considering its current and future investment in property development for commercial housing construction, the Company may face a certain capital expenditure burden. Moreover, under the recent downturn and weak sentiment of housing market, the Company may face more operating uncertainties.

**Increasing debt burden driven by large capital expenditure.** SDPH shows rising debt burden owing to its expansion in the construction of infrastructure construction and property development projects over the past few years. As of 31 March 2024, the Company's total debt increased to RMB34.5 billion from RMB25.7 billion as of end-2022. Furthermore, the Company has large capital expenditure plans in its infrastructure construction and property development. We believe the Company's ongoing investment will be mostly funded by external debts, and its debt leverage will be maintained at a high level in the next 12 to 18 months.

### Rating Outlook

The stable outlook on SDPH's rating reflects our expectation that Jining Municipal Government's capacity to provide support will be stable, and the Company's important role in the public utility services of Jining City will remain unchanged over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the Jining Municipal 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 lower exposure to risky commercial activities.

#### What could downgrade the rating?

The rating could be downgraded if (1) the Jining Municipal 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 regional significance or deteriorated refinancing ability.

### 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

CCXAP's Rating Symbols and Definitions are available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/6/](http://www.ccxap.com/en/rating_services/category/6/)



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