

Credit Opinion

9 July 2025

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

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Shangrao Industrial Investment Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Shangrao Industrial Investment Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Shangrao Industrial Investment Development Group Co., Ltd. ("SIID" or the "Company") is underpinned by the Company's (1) most important industrial investment platform in Shangrao City with good diversification; (2) good market position in non-ferrous metals business with market volatility; and (3) stable cash flow from photovoltaic power generation business.

However, the rating is also constrained by the Company's (1) high degree of marketization but relatively weak profitability and relatively high volatility; (2) increasing debt burden with certain short-term debt repayment pressure; and (3) weak liquidity position with limited financial flexibility.

The rating also reflects our expectation of a very high likelihood of strong support from the Shangrao Municipal Government and its parent, Shangrao City Construction Investment Development Group Company Limited ("SCID"), when necessary, given the Company's (1) status as the important subsidiary of SCID involved in market-driven businesses; and (2) strategic importance in industrial investment in Shangrao City as a municipal first-level state-owned enterprise. We believe that SCID has a very strong capacity to support the Company by dint of its (1) status as a key subsidiary of Shangrao Urban Operation (Holding) Group Co., Ltd. ("SUOG"), which is ultimately owned and controlled by the Shangrao State-owned Assets Supervision and Administration Commission ("Shangrao SASAC"); (2) key role in infrastructure construction and land development in Shangrao City; and (3) good track record of shareholder and government supports.

The stable outlook on SIID's rating reflects our expectation that the Company will maintain its strong regional competitiveness, serving as the urban operation entity in Shangrao City over the next 12-18 months.

Rating Drivers

- Very high likelihood of strong support from the Shangrao Municipal Government and its parent company
- Most important industrial investment platform in Shangrao City with good diversification
- Good market position in non-ferrous metals business with market volatility
- Stable cash flow from photovoltaic power generation business
- Strong regional market positioning in sand and gravel sales
- High degree of marketization but relatively weak profitability and relatively high volatility
- Increasing debt burden with certain short-term debt repayment pressure
- Weak liquidity position with limited financial flexibility

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the parent company's capacity or willingness to provide support strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as a stronger market position and improvement in profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the credit quality of SCID deteriorates or the likelihood of parental support is expected to be weakened; or (2) the Company's standalone credit quality worsens significantly, including a material drop in credit metrics and poor debt management.

Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	10.3	11.5	14.7	15.3
Total Equity (RMB billion)	4.8	5.1	5.5	5.5
Total Revenue (RMB billion)	3.1	3.3	2.9	0.4
Net Profits (RMB billion)	-0.0	0.0	0.0	0.0
EBIT Margin (%)	-1.7	3.0	4.2	1.4
Return on Assets (%)	-0.5	0.9	0.9	-
Total Debt/Total Capital (%)	47.0	48.4	48.8	51.5
Total Debt/EBITDA (x)	20.1	13.9	14.6	-
EBITDA/Interest (x)	1.3	1.5	1.0	-
FFO/Total debt (%)	0.3	2.0	-1.0	-

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

Source: Company data, CCXAP research

Corporate Profile

SIID was established in March 2016, formerly known as Shangrao Shuntong Car Rental Service Co., Ltd. The Company became the most important industrial investment entity in Shangrao City after equity transfer and asset injection in 2024. As the most important industrial investment entity in Shangrao City, its business covers non-ferrous metals, photovoltaic new energy, sewage treatment, sand sales, etc. According to the notice issued

by the government, the Company is regarded as a first-level enterprise under the supervision of the municipal government and its daily operations are entrusted to SUOG. As of 31 March 2025, SCID holds 100.0% equity of the Company, serving as the sole shareholder, while Shangrao SASAC is the Company's actual controller. As of the same date, the registered capital of the Company was RMB1.0 billion and paid-in capital was RMB214.0 million. SIID recorded a total revenue of RMB3.3 billion in 2023 and RMB2.9 billion in 2024, respectively.

Exhibit 1. Revenue structure in 2024

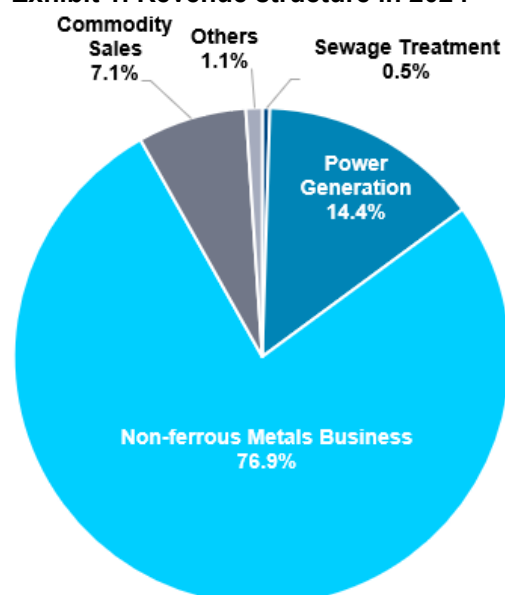
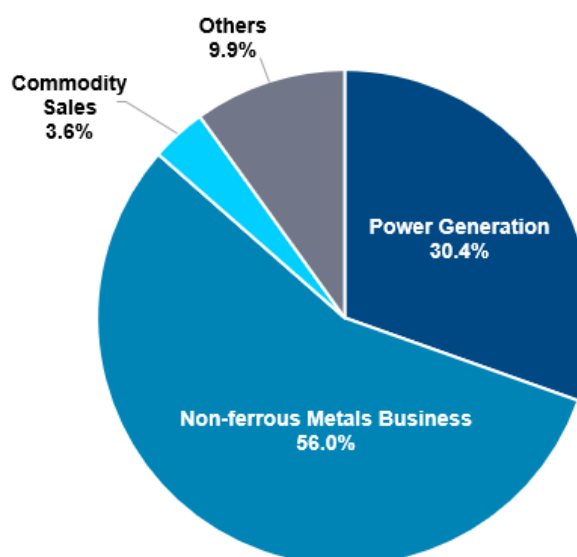


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Most important industrial investment platform in Shangrao City with good diversification

SIID serves as the most critical industrial investment entity in Shangrao City, with core businesses including non-ferrous metals, photovoltaic power generation, waste treatment and power generation, sand and gravel sales, and other businesses. These businesses exhibit a high degree of diversification and regional exclusivity, contributing to strong overall business development quality, aligning strategically with long-term government policies, thereby driving sustainable economic growth and industrial development within the region while holding pivotal economic significance.

However, non-ferrous metals business is vulnerable to market fluctuations, while the gross profit margin of sand and gravel sales has been declining year by year. Additionally, photovoltaic power generation profitability heavily relies on government subsidies, and future policy adjustments could directly impact revenue from power generation. Nevertheless, the Company's diversified business structure improves its resilience against sector-specific volatilities and allows simultaneous alignment with multiple government priorities. Consequently, we believe that the Company can diversify its business risks and mitigate revenue volatility through the synergistic operation of its multiple business segments, which is credit-positive.

Good market position in non-ferrous metals business with market volatility

SIID engages in aluminum production and trading business via its subsidiary, Fujian Minfa Aluminum Co., Ltd. ("Minfa Aluminum", stock code: 002578.SZ), which is the main income source of the Company, providing around 76.9% of total revenue in 2024. In 2024, SCID's 31.6% equity stake in Minfa Aluminum was contributed to SIID at zero consideration, and the Company became Minfa Aluminum's largest shareholder.

Minfa Aluminum specializes in Research and Development ("R&D"), production, and sales of construction aluminum profiles. In the R&D field, Minfa Aluminum has yielded substantial intellectual property (148 national patents) and industry influence (47 standards participation). In terms of production, Minfa Aluminum follows strict make-to-order principles, maintaining high utilization rates despite output volatility during 2022-2024. Minfa Aluminum employs cost-plus pricing (aluminum ingot price + processing fee), with raw materials constituting 87.8% of COGS in 2024 - leaving significant exposure to aluminum price fluctuations that are partially mitigated through futures hedging. Its production-sales ratio remained robust at over 100% over the past three years, indicating strong market absorption capacity.

Geographically, Minfa Aluminum's sales concentrate domestically (92.4% of total revenue in 2024) through a hybrid distribution model of direct sales (84.5% of total revenue in 2024) serving major projects/enterprises via technical customization, complemented by distributors for regional coverage. It also exports to more than 30 countries and regions, including the EU, South America, Southeast Asia, and the Middle East. Meanwhile, it has a notable decrease in downstream customer concentration with a more diversified client base, as the sales from the top five customers accounted for 18.8% of the total sales in 2024. However, it has a high concentration risk regarding upstream suppliers, as the top five suppliers accounted for 82.4% of the total procurement in 2024.

As of 31 March 2025, Minfa Aluminum had total assets of RMB2.2 billion and net assets of RMB1.5 billion. Due to intensified competition in the aluminum processing industry, fluctuations in aluminum prices, and downturn of construction sector, the revenue decreased from RMB2.8 billion in 2022 to RMB2.2 billion in 2024, and the

average gross profit margin was stable at around 6.1% over the same period. However, the segment's sensitivity to commodity prices and end-market demand warrants ongoing monitoring.

Stable cash flow from photovoltaic power generation business

The energy and environmental sector represents a key development focus of SIID, currently comprising two main businesses: photovoltaic power generation and waste treatment & power generation. The Company has strong regional competitiveness in photovoltaic power generation business in Shangrao City. We believe that the Company has strong competitiveness in the region, leveraging regional policies and sustained government subsidies, while being vital to residents. In terms of photovoltaic power generation, as of 31 March 2025, 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 Company's photovoltaic projects were included in the first batch of photovoltaic poverty alleviation projects, receiving strong government support.

The photovoltaic power generation business demonstrates stable performance but carries relatively heavy policy dependency. From 2022 to 2024, the Company obtained a total of RMB343.0 million in government subsidies. However, due to reduced sunlight, the Company's photovoltaic power generation has declined, leading to a slight decrease in power supply revenue. The revenue including subsidies dropped from RMB280.0 million in 2022 to RMB256.0 million in 2024. Meanwhile, the profitability of photovoltaic power business heavily relied on policy subsidies. At the end of 2024, the Company still had RMB194.0 million receivables in national subsidies for photovoltaic power generation. Profitability remains vulnerable to regulatory adjustments in feed-in tariffs, delays in subsidy disbursements, and rigid poverty alleviation costs (around RMB140.0 million per year), necessitating close monitoring of policy developments.

The waste treatment & power generation involves the operations of waste incineration plant in Shangrao City, which is constructed by the Company with total investment of RMB912.0 million. It generated RMB158.8 million in 2024 and RMB36.5 million in 2025Q1, supplementing the Company's income.

Strong regional market positioning in sand and gravel sales

The Company's sand and gravel sales business holds unique competitive strengths through exclusive government authorization. Sand and gravel sales constitute the primary source of SIID's commodity sales revenue, covering river courses administered at the provincial, municipal, and county levels, with a planned mining area of 7.8 square kilometers and substantial reserves totaling 3.8 million tons in annual permitted volume. This monopoly position fuels rapid revenue growth as revenue from sand and gravel sales increased from RMB17.1 million in 2022 to RMB116.5 million in 2024, driving revenue from commodity sales rising from RMB37.0 million in 2022 to RMB203.7 million in 2024, accounting for 7.1% of total revenue and contributing as a supplementary component to the Company. Noteworthy, the commodity sales business has been impacted by fluctuating market conditions, with its gross profit margin experiencing a sharp decline from 37.9% in 2022 to 4.0% in 2024.

Financial Profile

High degree of marketization but relatively weak profitability and relatively high volatility

In 2024, SIID's revenue has been predominantly driven by the non-ferrous metals segment (76.9%), power generation (14.4%), commodity sales (7.1%), sewage treatment (0.5%), and other businesses (1.1%). In 2024, the non-ferrous metals segment (primarily the aluminum business) was impacted by market fluctuations, resulting in a decline in segment revenue that translated to a decrease in total revenue. SIID's total revenue fell

from RMB3.1 billion in 2022 to RMB2.9 billion in 2024. Regarding period expenses, administrative expenses have remained the primary component in recent years, accompanied by a rising trend in the period expense ratio. In 2024, financial expenses declined owing to higher interest income, yet the period expense ratio still increased from 4.6% in 2022 to 6.7% in 2024 as the decrease in total revenue outpaced the reduction in period expenses.

SIID's profitability remains relatively weak, as indicated by its low return on assets ("ROA") and EBIT margin. ROA stayed consistently low at below 1% from 2022 to 2024 while EBIT margin recorded at 4.2% in 2024. In 2023, the Company's gross profit margin increased significantly, primarily due to the inclusion of power generation revenue from four newly subordinate counties, making a significant turnaround, rising from 2.1% in 2022 to 7.2% in 2023. Meanwhile, the gross profit margin continued to rise in 2024, reaching 7.3%, mainly driven by improved profitability of power generation business. Overall, SIID's diversified business portfolio could partially support its income over the next 12 to 18 months. However, the Company's profitability is expected to remain relatively weak.

Increasing debt burden with certain short-term debt repayment pressure

SIID's debt burden has increased alongside business expansion, with total debt rising from RMB4.2 billion at the end of 2022 to RMB5.9 billion as of 31 March 2025, with a relatively high total capitalization ratio of 51.5%. Benefiting from the equity assets transferred from SCID and the increase in capital surplus due to government support, the Company's total equity has expanded, growing from RMB5.1 billion at the end of 2023 to RMB5.5 billion as of 31 March 2025. SIID faces certain short-term debt repayment pressure, with short-term debt accounting for 58.6% of total debt as of 31 March 2025. After excluding restricted cash, the cash-to-short-term debt ratio stands at 0.2x, indicating that its cash reserves cannot fully cover short-term debt. Given the substantial capital expenditures required for the further development of the Company's diversified businesses, we expect that the Company will rely on external financing to meet its capital expenditures and the total debt level will continue to increase.

Weak liquidity position with limited financial flexibility

As the Company's debt burden and financing costs increased, the Company's debt servicing capability is weak, as reflected by EBITDA interest coverage ratio of 1.0x and total debt/EBITDA ratio of 14.6x in 2024. Its low FFO/total debt ratio of -1.0% in 2024 also indicates constrained cash flow generating capability.

In addition, SIID's financing channels are mainly bank loans and non-standard financing. As of 31 December 2024, the Company has obtained total bank credit facilities of RMB1.3 billion, with an unutilized amount of RMB45.0 million, indicating poor standby liquidity. Meanwhile, the Company relies heavily on non-standard financing, accounting for 54.9% at the end of 2024. Moreover, the equity pledge ratio of Minfa Aluminum is 50.0%, which is at a relatively high level. However, the borrowings among the state-owned enterprises in the region can provide some liquidity buffer. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities and issuing onshore or offshore bonds.

External Support

Very high likelihood of strong support from the Shangrao Municipal Government and its parent company

We anticipate the Company has a very high likelihood of support from the Shangrao Municipal Government and its parent company when necessary, given its (1) status as the core subsidiary of SCID in the market-driven

businesses; and (2) strategic importance in industrial investment in Shangrao City as a municipal first-level state-owned enterprise. We believe that SCID has a strong capacity to support the Company by dint of its (1) status as a key subsidiary of SUOG, which is ultimately owned by the Shangrao SASAC; (2) key role in infrastructure construction and land development in Shangrao City; and (3) good track record of shareholder and government supports.

We believe the Shangrao Municipal Government has very strong capacity to support when necessary, reflected its 4th ranking in terms of economic strength in Jiangxi Province, with fast economic growth and moderate fiscal profile. In 2024, Shangrao City recorded a gross regional product of RMB372.1 billion, ranking the 4th among 11 prefecture-level cities in Jiangxi Province, with a solid economic growth rate of 5.7%. Its general budgetary revenue increased by 4.0% YoY to RMB28.2 billion, with tax income accounting for 67.0%, indicating moderate fiscal stability.

SIID has an important position in SCID's operations as the primary operating subsidiary in industrial investment. It contributes most of the revenue stream for SCID, accounting for 55.8% of SCID's total revenue and 5.8% of SCID's total profit in 2024. In 2024, SCID transferred its 31.6% equity in Minfa Aluminum, 100% equity in Shangrao Urban Investment Energy Group Co., Ltd., 100% equity in Shangrao Raixin Building Materials Co., Ltd., and 100% equity in Shangrao Ecological Environment Engineering Investment Co., Ltd. to SIID, significantly enhancing the Company's capital strength and broadening its business scope. Meanwhile, SIID is regarded as a first-tier municipal enterprise for supervision. We expect the Company will continuously receive comprehensive support from its parent company and Shangrao Municipal Government.

SCID's capacity to provide support is largely underpinned by SUOG. Ultimately owned and controlled by the Shangrao SASAC, SUOG is a pivotal comprehensive urban operation service provider in Shangrao City. In addition, the Shangrao Municipal Government maintains a high degree of control over SCID's operations through SUOG, including the formulation of business strategies and the appointment of the board of directors and key management personnel. SUOG is also required to report its annual budget, objectives, plans and performance to Shangrao SASAC. Furthermore, SUOG has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections.

Rating Methodology

The methodology used in this rating is the [Rating Methodology for General Corporate \(April 2019\)](#).

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