

Lianhe Global has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shuifa Group Co., Ltd.

HONG KONG, 22 December 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A’ global scale Long-term Issuer Credit Rating to Shuifa Group Co., Ltd. (“Shuifa”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Shandong provincial government would provide strong support to Shuifa if needed, in light of its majority ownership of Shuifa, Shuifa’s strategic position as the sole provincial level, and the major water supply and water-related project development platform in Shandong Province and the strong linkage between the Shandong provincial government and Shuifa including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Shandong provincial government may face significant negative impact on its reputation and business and financing activities should Shuifa encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Shuifa’s strategic importance will remain intact while the Shandong provincial government will continue to ensure Shuifa’s stable operation.

Key Rating Rationales

Strong Linkage with the Shandong Provincial Government: At end-September 2021, the State-owned Assets Supervision and Administration (“SASAC”) of Shandong Province holds 70% stake in Shuifa while Shandong Guo Hui Investment Co., Ltd. and Shandong Social Security Fund Council hold 20% and 10%, respectively. Shuifa’s linkage with the local government is strong as it is majority-owned by the Shandong provincial government. The controlling shareholder and actual controller is the SASAC of Shandong Province which is under the Shandong provincial government.

Strategic Importance of Shuifa to Shandong Provincial Government: Shuifa is the largest provincial level LGFV platform for water supply and water-related development projects with a dominant market position in Shandong Province. Shuifa’s water supply segment mainly focuses on southwestern cities in Shandong Province like Weifang, Jining, Heze, Liaocheng, Laiwu, etc. Shuifa is also the largest raw water supplier in Shandong province, with a designated daily water supply of 4.07 million cubic meters in 2020. Securing a safe and stable water supply to Shandong is also a national priority, considering Shandong is one of China’s most populous provinces, with more than 100 million residents. Shandong’s GDP of RMB7,312.9 billion in 2020 was the third largest in China, representing 7.2% of China’s GDP. While Shuifa’s operation segment focuses on water supply and water-related development projects, it has increasing contributions from certain commercial segments in clean energy, modern agriculture, real estate development, etc. which would constrain its strategic positioning in Shandong vis-à-vis traditional LGFVs which focus on providing public goods and services.

Strong Government Supervision and Strategic Alignment: The Shandong provincial government has strong control and supervision over Shuifa, including control of the board of directors and the supervisory committee, and approvals of senior manager appointments and major operating and financing plans. Shuifa's strategic planning and development have been aligned with the local government's economic and national policies. In addition, the government will assign auditors to audit Shuifa's financial and operating data on a periodic basis.

Ongoing Government Support: Shuifa has been receiving supports from the local government for its business operation, including capital injections, government subsidies, and allocation of land resources or assets. Shuifa's registered capital was RMB5.2 billion at end-September 2021. Shuifa has consistently received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects. Shuifa received a total of RMB1.3 billion of government subsidies between 2018 and 3Q2021. We believe Shuifa is likely to continue to receive government support in times of operational and/or financial subsidies.

High Financials Leverage: Shuifa's financial leverage (total liabilities to assets) was high but relatively steady at around 75% in the recent three years. Shuifa mainly relies on external financing to support its capital expenditure. In view of its projects under construction and development, we expect Shuifa's capital expenditure needs to continue. Shuifa had a total bank credit line of RMB100.4 billion of which approximately RMB48.6 billion was available at end-September 2021. The available bond issuance quota was RMB17.7 billion with available cash of RMB9.3 billion compared to its debt to be due within one year of c. RMB29.4 billion at end-September 2021.

Economy and Fiscal Strength Underpin Shandong: Shandong's GDP was RMB7,312.9 billion in 2020 and RMB6,043.9 billion in the third quarter of 2021, representing year-over-year growth of 3.6% and 9.9%, respectively. Shandong's economic growth was mainly fueled by the growth of the secondary and tertiary industries in the past few years. These two sectors realized the added value of RMB2,859.3 billion and RMB3,919.7 billion, in 2020, respectively. Shandong's 2020 full-year GDP amount was ranked third in China, placing it ahead of Zhejiang but behind Jiangsu and Guangdong. GDP per capita was stable at between c. RMB70,000 and RMB76,300 in the recent years.

Rating Sensitivities

We would consider downgrading Shuifa's rating if (1) there is perceived weakening in support from the Shandong provincial government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Shandong provincial government's ownership of Shuifa, or (3) there is a downgrade in our internal credit assessment on the Shandong provincial government.

We would consider upgrading Shuifa's rating if (1) there is strengthened support from the Shandong provincial government, or (2) there is an upgrade in our internal credit assessment on the Shandong provincial government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this Shuifa's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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