

# Shaoxing City Investment Group Limited

## Surveillance Report

### Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	9 August 2023

Lianhe Ratings Global Limited ("Lianhe Global") affirmed 'A' global scale Long-term Issuer and Issuance Credit Rating of Shaoxing City Investment Group Limited ("SCIG" or "the company"); Issuer Rating Outlook is Stable

### Summary

The Issuer Credit Rating reflects a high possibility that the Shaoxing Municipal Government would provide strong support to SCIG if needed. This mainly considers the Shaoxing Municipal Government's 90% ownership of SCIG, the high importance of SCIG to Shaoxing in the utilities (gas and water) infrastructures and services, as well as urban infrastructure and social-housing construction area, and the strong linkage between the Shaoxing Municipal Government and SCIG, including management supervision, ongoing operational and financial support. In addition, the Shaoxing Municipal Government may face significant negative impact on its reputation and financing activities if SCIG encounters any operational and financial difficulties.

Lianhe Global has also affirmed 'A' global scale Long-term Issuance Credit Rating of the senior unsecured USD bonds issued by SCIG at the same time. A full list of affirmed issuance rating is included in this report.

The Stable Outlook reflects our expectation that SCIG's strategic importance would remain intact while the Shaoxing Municipal Government will continue to ensure SCIG's stable operation.

### Rating Rationale

**Government's Ownership and Supervision:** The Shaoxing Municipal Government, via Shaoxing State-owned Assets Supervision and Administration Commission ("Shaoxing SASAC"), holds 90% of SCIG, while the remaining 10% of SCIG's shares was owned by Zhejiang Finance Development Co., Ltd., a wholly owned entity of Zhejiang Provincial Department of Finance, to subsidize the provincial Social Security Fund. The Shaoxing Municipal Government is the ultimate shareholder of SCIG and has strong control and supervision over SCIG, including management appointment, the decision on its strategic development plan and supervision of its major funding decisions. In addition, the Shaoxing SASAC reviews the audit report of the operation of SCIG by an external auditor.

**Strategic Importance and Strategic Alignment:** SCIG remains Shaoxing's major operating entity of urban infrastructures and social-housing. It is responsible for the construction of key projects in Shaoxing. SCIG is also the only natural gas infrastructure and services provider in the urban area of Shaoxing. SCIG's business operation and development have been aligned with the government's economic and social policies.

**Ongoing Government Support:** SCIG received continuous financial support from the Shaoxing Municipal Government in the past three years, amounting to RMB1,522 million and RMB4,698 million and RMB2,304 million, respectively. At the same time, the government also injected some fixed assets such as properties and transferred the equities of other SOEs to SCIG to expand the company's asset base. We expect SCIG to receive ongoing support from the Shaoxing government given its strategic importance in Shaoxing.

### Key Figures of Shaoxing and SCIG

(RMB billion)	2021	2022
<b>Shaoxing</b>		
GDP	679.5	735.1
GDP growth rate (%)	8.7	4.4
Budgetary revenue	60.4	54.0
Government fund	115.5	72.8
Transfer payment	7.9	13.0
Budgetary expenditure	71.5	80.5
<b>SCIG</b>		
Assets	65.3	66.8
Equity	25.8	25.6
Revenue	9.4	11.1

Source: Public information, SCIG and Lianhe Global's calculations

### Analysts

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

**Economic and Fiscal Condition of Shaoxing:** Shaoxing's GDP reached RMB735.1 billion in 2022, representing a year-over-year growth rate of 4.4%. Shaoxing's economic development level is above the average level of Zhejiang Province. Its GDP size was ranked 4<sup>th</sup> among 11 prefecture-level cities under the jurisdiction of Zhejiang Province in 2022.

The aggregate fiscal revenue of the Shaoxing government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Shaoxing government decreased to RMB54.0 billion in 2022 from RMB60.4 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. The financial self-sufficiency rate of Shaoxing was insufficient and its budget deficit widened to 49.0% in 2022 from 18.3% in 2021. In addition, Shaoxing's government fund income, mainly generated by land sales, also dropped to RMB72.8 billion in 2022 from RMB115.5 billion in 2021, due to the weak property market.

At end-2022, the outstanding debt of the Shaoxing government increased by 16.9% to RMB168.1 billion (including RMB46.6 billion of general obligations and RMB121.5 billion of special debt). The debt ratio (total outstanding debt/aggregate fiscal revenue) increased to 119.9% in 2022 from 78.0% in 2021, mainly due to the increase in special debt and the drop in aggregate revenue.

**SCIG's Financial and Liquidity Position:** Both SCIG's assets and debt have expanded steadily in the past two years. As a result, the company's financial leverage, measured by total liability/total asset, increased slightly to 63.2% at end-March 2023 from 60.5% at end-2021. The company's other non-current assets increased significantly from c. RMB66 million at end-2021 to RMB12.3 billion at end-2022, which was due to the transfer of agent construction projects from construction in progress, as a result of the change in accounting method required by the government authority. This change would not affect the cash collection schedule for agent construction projects, and thus has no material impact on the company's financial conditions.

At end-March 2023, the company had c. RMB6.6 billion of cash against its short-term debt amounting to c. RMB5.3 billion at end-March 2023. In addition, SCIG has access to multiple financing channels, including bank loans, syndicated loans and bond issuances, etc., to support its debt repayment and business operation. The company had an unused credit line of c. RMB12.4 billion at end-March 2023.

## Rating Sensitivities

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

We would consider upgrading SCIG's rating if (1) there is strengthened support from the Shaoxing Municipal Government, or (2) there is an upgrade in our internal credit assessment on the Shaoxing Municipal Government.

## Company Profile

SCIG was established as a fully state-owned entity in 1999 with an initial capital of RMB220 million. From 1999 to 2020, the company's registered capital had been increased multiple times to RMB3,300 million, including but not limited to capital and asset injection and equity transfer from the local governments and related departments. According to the decision of the Shaoxing SASAC, it transferred 10% of SCIG's equity free of charge to Zhejiang Finance



Development Co., Ltd. (浙江省财务开发有限责任公司) in September 2020, which is a wholly-owned company of the Zhejiang Provincial Department of Finance (浙江省财政厅). Consequently, Shaoxing SASAC holds 90% equity of SCIG and the Shaoxing Municipal Government is the ultimate controller.

SCIG is one of the most important state-owned LIDCs under the Shaoxing Municipal Government. Its business mainly focuses on the municipal urban infrastructure construction, utilities (gas and water supply), social housing and supplemented by merchandise sales, such as building materials and electrical equipment.

### Full List of Issuance Rating

A full list of affirmed Issuance rating is included below. Any rating action on SCIG's rating would result in a similar rating action on the USD bonds:

- USD 700 million 2.5% senior unsecured bonds due 2026 affirmed at 'A'

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