

# Shuifa Group Co., Ltd

## Surveillance Report

### Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	21 December 2023

### Key Figures of Shandong and Shuifa

(RMB billion)	2021	2022
<b>Shandong</b>		
GDP	8,309.6	8,743.5
GDP growth rate (%)	8.3	3.9
Budgetary revenue	728.5	710.4
Government fund	797.7	608.0
Transfer payment	326.2	389.0
Budgetary expenditure	1,171.3	1,213.2
<b>Shuifa</b>		
	<b>2022</b>	<b>2023.9</b>
Assets	157.8	161.0
Equity	34.1	36.2
Revenue	74.5	51.1

Source: Shandong Bureau of Statistics, the Shandong government, Shuifa and Lianhe Global's calculations

**Lianhe Global has affirmed 'A' global scale Long-term Issuer Credit Rating of Shuifa Group Co., Ltd. ("Shuifa"); Rating Outlook Stable**

### Summary

The Issuer Credit Rating reflects a high possibility that the Shandong provincial government ("Shandong government") would provide moderately 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 ("Shandong") and the strong linkage between the Shandong government and Shuifa including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Shandong government may face 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 business profile will remain intact while the Shandong government will continue to ensure Shuifa's stable operation.

### Rating Rationale

**Local Government's Ownership and Supervision:** At end-September 2023, the company had a shareholding structure in which the State-owned Assets Supervision and Administration of Shandong Province ("Shandong SASAC") held 62.65% stake in Shuifa, while Shandong Guo Hui Investment Co., Ltd., Shandong Energy Group Company Limited ("SEG") and Shandong Caixin Assets Operation Co., Ltd. held 17.9%, 10.5% and 8.95%, respectively. Shuifa's linkage with the local government is strong as it is majority-owned by the Shandong government. The controlling shareholder and actual controller is the Shandong SASAC under the Shandong government. The registered and paid-in capital were both RMB5.82 billion at end-September 2023.

**Strategic Importance and Alignment:** Shuifa is still the largest provincial level LIDC platform for water supply and water-related development projects with a dominant market position in Shandong province, as well as the largest raw water supplier in Shandong. Despite the fact that Shuifa's role is hard to replace in a short period of time considering its expertise, size and project under construction, it has some commercial segments in clean energy and modern agriculture, which would constrain its strategic position in Shandong vis-à-vis traditional LIDCs that focus on providing public goods and services. Shuifa demonstrated a diversified business portfolio inside and outside Shandong, which may have a potential impact on Shuifa's strategic importance in Shandong. Having said that, Shuifa's strategic planning still indicates its business readiness to align with Shandong. In 2022, the company divested some non-core assets and business outside the province.

**Strong Government Supervision and Strategic Alignment:** The Shandong 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 provincial government's economic and national policies. In addition, the government assigns auditors to audit Shuifa's financial and operating data on a periodic basis.

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### Applicable Criteria

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

**Ongoing Government Support:** Shuifa continued to receive capital and assets injections from the Shandong government. The injections included capital, cash and other tangible/intangible assets. Shuifa received a capital increase of RMB1.6 billion, which was authorized by the Shandong SASAC and funded by SEG In 2023. Shuifa consistently received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects and enjoys a series of tax policy benefits. Shuifa received RMB282.6 million and RMB202.8 million of government subsidies in 2022 and for the first nine months of 2023, respectively. Shuifa's large proportion of self-operating business, diversified projects distribution outside the Shandong, as well as the risk exposure to different local financial subsidy policies, may have a potential impact on the stability of the financial subsidies received from the Shandong government.

**Moderately Weak Standalone Profile:** Shuifa's financial leverage (total liabilities to assets) was 77.5% at end-September 2023, slightly decreased from 78.4% at end-2022. Shuifa mainly relies on external financing to support its capital expenditure. In view of its projects under construction and development, we expect Shuifa needs to continue its capital expenditure. Shuifa's total adjusted debt decreased from RMB96.1 billion at end-2021 to RMB88.4 billion at end-2022, and further decreased to RMB85.4 billion at end-September 2023. The short-term and long-term debt accounted for 32.3% and 67.7% of its total debt, respectively. Shuifa had a cash balance of approximately RMB8.6 billion (including restricted cash of RMB3.4 billion) and unused credit line of RMB49.8 billion at end-September 2023, compared with its debt will be due within one year of RMB27.6 billion at the same time. Besides, Shuifa has access to various financing channels including bank loans, onshore and offshore bonds issuance, other non-traditional financing such as finance leasing and trust loan.

**Economy and Fiscal Strength Underpin Shandong:** Shandong's GDP increased to RMB8,743.5 billion, representing a year-over-year growth rate of 3.9%, ranked third in China. Its economic growth was mainly fuelled by the secondary and tertiary industries. Shandong's fiscal revenues are mainly derived from budgetary revenue and government-managed fund. Its budgetary revenue decreased to RMB710.4 billion in 2022 from RMB728.4 billion in 2021, mainly due to the large-scale value-added tax credit refund policies to support the economy. Shandong's fiscal self-sufficiency rate was relatively low, and its budget deficit widened from 60.7% in 2021 to 70.8% in 2022. The revenue from government-managed fund slumped by 23.8% year-over-year to RMB608.0 billion in 2022, owing to the weak property market. Shandong's government debt increased by 18.0% year-over-year to RMB2,358.8 billion at end-2022, mainly due to the increased in special debt.

## Rating Sensitivities

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

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

## Company Profile

Shuifa Group Co., Ltd. was founded in 2009 and registered with the Shandong Market Supervision and Administration Bureau. Its headquarters are in Jinan City, Shandong Province.



As of end-September 2023, Shuifa's registered capital and paid-in capital were both RMB5.82 billion. The Shandong SASAC, Shandong Guo Hui Investment Co., Ltd., Shandong Energy Group Company Limited and Shandong Caixin Assets Operation Co., Ltd. held 62.65%, 17.9%, 10.5% and 8.95% of the company's shares, respectively, at end-September 2023. The controlling shareholder and actual controller is the Shandong SASAC under the Shandong government.

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