

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shouguang Port Investment Holding Group Co., Ltd.

HONG KONG, 19 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shouguang Port Investment Holding Group Co., Ltd. (“SGPI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Shouguang City (“Shouguang government”) would provide strong support to SGPI if needed. This mainly considers the Shouguang government’s ownership of SGPI, SGPI’s strategic importance as an important local investment and development company (“LIDC”) responsible for project construction in Shouguang City (“Shouguang”), and the strong linkage between the Shouguang government and SGPI, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Shouguang government may face significant negative impact on its reputation and financing activities if SGPI encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that SGPI’s strategic importance would remain intact while the Shouguang government will continue to ensure SGPI’s stable operation.

Key Rating Rationales

Shouguang Government’s Ownership and Supervision: The Shouguang State-owned Asset Supervision and Administration Bureau (“Shouguang SASAB”) is the sole shareholder and actual controller of SGPI. The Shouguang government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Shouguang government formulates a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: As an important LIDC in Shouguang, SGPI is mainly responsible for industrial park investment and operation as well as projection construction in Shouguang. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Shouguang government provided ongoing support to SGPI. The company has received total subsidies of RMB444.3 million from the Shouguang government during 2020 to 2022. Besides, the company received a series of asset injections with a total value of RMB400.5 million from the Shouguang government in 2021. In addition,

the company's paid-in capital was also enlarged to RMB370 million at end-September 2023 from RMB250 million in 2022. We expect SGPI to receive ongoing support from the Shouguang government in the coming years considering its strategic importance in Shouguang.

Economy and Fiscal Condition of Shouguang: Shouguang recorded a GDP of RMB95.4 billion in 2022, which was ranked 2nd among all 12 districts, county-level cities and counties under the administration of Weifang City. Its economic growth rate slowed down to 4.0% in 2022 from 10.5% in 2021 owing to Covid's disruption. Its fixed asset investment growth rate was on an upward trend in the past few years, recording at 4.5%, 17.8% and 22.7% in 2020, 2021 and 2022, respectively.

The Shouguang government's budgetary revenue decreased to RMB9.8 billion in 2022 from RMB10.3 billion in 2021, due to the large-scale value-added tax credit refund policies to support the economy. The government fund income maintained a rapid growth in the past three years, becoming increasingly essential to the Shouguang government. However, the government fund income, mainly generated by land use right transfers, is vulnerable to the property market downturn.

Shouguang's government debt increased significantly to RMB18.6 billion at end-2022 from RMB15.8 billion at end-2020, mainly due to the increase in special debt to support a series of major projects. Moreover, the government debt has approached the government debt ceiling (99.9% in 2022), which may restrict its debt financing capacity in the coming years.

SGPI's Financial Matrix and Liquidity Position: SGPI's total asset grew rapidly to c. RMB12.5 billion at end-September 2023 from c. RMB7.4 billion at end-2020. The company mainly relied on capital injections from the local government and bank borrowings to fund its asset expansion. The company's financial leverage, as measured by debt/capitalization ratio was on an upward trend in the past few years, recording at 32.1% at end-September 2023.

The liquidity risk of SGPI was manageable. At end-September 2023, the company had cash balance of RMB102 million, compared with its debt due within one year of c. RMB1.2 billion. Nevertheless, the company has access to various financing channels, including bank borrowings and bond issuances to satisfy its obligations. In addition, SGPI also had unused bank facilities of RMB2.3 billion at end-September 2023.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 SGPI's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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.

Contact Information

Primary Analyst
Sigmund Jiang, CFA, CESGA
Analyst
(852) 3462 9587
sigmund.jiang@lhratingsglobal.com

Secondary Analyst
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Committee Chairperson
Joyce Huang, CFA
Managing Director
(852) 3462 9586
joyce.huang@lhratingsglobal.com

Business Development Contact
Joyce Chi, CESGA
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.