

Shandong Shouguang Jinxin Investment Development Holding Group Co., Ltd.

Surveillance Report

Summary

| | |
|---------------|--------------------------------------------|
| Issuer Rating | BBB- |
| Outlook | Stable |
| Location | China |
| Industry | Local Investment and Development Companies |
| Date | 18 January 2024 |

Key Figures of Shouguang and SSJID

| (RMB billion) | | | |
|-----------------------|------|--------|--|
| Shouguang | 2021 | 2022 | |
| GDP | 95.4 | 100.2 | |
| GDP growth rate (%) | 10.5 | 4.0 | |
| Budgetary revenue | 10.3 | 9.8 | |
| Government fund | 8.9 | 9.3 | |
| Transfer payment | 2.8 | 3.3 | |
| Budgetary expenditure | 12.4 | 12.8 | |
| SSJID | 2022 | 2023.9 | |
| Asset | 22.7 | 28.8 | |
| Equity | 9.2 | 13.7 | |
| Revenue | 3.8 | 3.0 | |

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

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Shandong Shouguang Jinxin Investment Development Holding Group Co., Ltd. (“SSJID”); Issuer Rating Outlook is Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the Shouguang people’s government (“the Shouguang government”) would provide strong support to SSJID if needed, in light of its indirectly full ownership of SSJID, SSJID’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for state-owned capital investment, project construction and state-owned assets operation in Shouguang City (“Shouguang”), and the strong linkage between the Shouguang government and SSJID, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Shouguang government may face significant negative impact on its reputation and financing activities should SSJID encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: Under the approval of the Shouguang government, the State-owned Assets Operating Center of Shouguang (“the Shouguang SAOC”) transferred 100% shares of SSJID to Shouguang Jinxin Industry Development Group Co., Ltd. (“JXID”) in December 2023. JXID is wholly owned by the Shouguang SAOC.

The change of shareholder does not dilute the Shouguang government’s ultimate ownership and control over SSJID. The Shouguang government supervises the company’s senior management, major operation, investment and financing plans. In addition, Shouguang SAOC has an annual assessment mechanism for SSJID and appoints auditors to review its operating performance and financial position regularly.

Strategic Importance and Strategic Alignment: SSJID is an important LIDC that is responsible for state-owned capital investment and state-owned assets operation in Shouguang. SSJID invested in manufacturing companies and financial institutions in Shouguang to support local economic development. The company also provided essential public service (heat supply) and participated in the development of key projects in Shouguang, including the Shouguang East Railway Station. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: SSJID received increasing financial subsidies of RMB203 million, 303 million, 677 million, 1,017 million and 800 million in 2019, 2020, 2021, 2022 and the first nine months of 2023, respectively, from the Shouguang government to support its operation. The Shouguang government also injected pipe network valued at RMB1,237 million into the company in 2022. We expect SSJID to receive ongoing support from the local government in the coming years given its strategic importance in Shouguang.

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Applicable Criteria

[China Local Investment and Development Companies Criteria \(5 December 2022\)](#)

Economy and Fiscal Conditions 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.

SSJID's Financial and Liquidity Positions: SSJID's asset size surged to RMB28.8 billion at end-September 2023, from RMB22.7 billion at end-2022, while its total debt was largely stable. As a result, the company's total debt capitalization ratio declined to 44.9% at end-September 2023 from 53.0% at end-2022. However, receivables generated by its project development activities and other receivables due from other LIDCs in Shouguang occupied a lot of SSJID's funds and weakened the company's asset liquidity.

The short-term debt serving pressure of SSJID was high. SSJID had a total cash balance of RMB2.1 billion and unused credit line of RMB463 million at end-September 2023, compared with its debt to be due within one year of RMB5.0 billion. Yet we expect the company to roll over most of its short-term bank borrowings (end-September 2023: RMB2.8 billion). The company also has access to other financing channels such as bond issuances and non-traditional financings.

Rating Sensitivities

We would consider downgrading SSJID'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 SSJID, or (3) there is a downgrade in our internal credit assessment on the Shouguang government.

We would consider upgrading SSJID'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.

Company Profile

SSJID, formerly known as Shouguang Xinyu Guarantee Co., Ltd., was established in 2005 by several SOEs and public institutions with initial registered capital of RMB100 million. It was mainly engaged in financial guarantee activities at that time.

The company's name was changed to SSJID in 2014. After a series of equity transfers and capital injections, it is wholly owned by the Shouguang SAOC through JXID, and its registered capital was enlarged to RMB360 million at end-September 2023.

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