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S&P Global
China Ratings

Surveillance Credit Rating Report:

China State Construction SilkRoad Construction Investment Group Co., Ltd.

Issuer Credit Rating*: AA_{spc}+; Outlook: Stable

Rating Date: January 16, 2024
Date of Expiry: December 25, 2024

Primary Credit Analyst:
Yingxue Ren, 010-65166037; yingxue.ren@spgchinaratings.cn

Secondary Contact:
Kexin Wang, 010-65166033; kexin.wang@spgchinaratings.cn

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* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
China State Construction SilkRoad Construction Investment Group Co., Ltd.	Issuer Credit Rating	$AA_{spc}+$	January 16, 2024	Stable

Industry Classification: Transportation Infrastructure

Company Overview: China State Construction SilkRoad Construction Investment Group Co., Ltd. ("CSCEC SilkRoad" or "company") is a wholly-owned subsidiary of China State Construction Engineering Corporation Ltd. ("CSCEC" or "parent"). The company facilitates the development of CSCEC's infrastructure construction business through investing in various infrastructure projects. The company earns the bulk of its revenue and profits from EPC, management fees and investment returns. The company mainly sources the funding for its public-private partnership (PPP) projects from project loans and partly funds its equity investment in PPP projects from management fees and profits from other projects. Management fees and profits from projects also contribute to loan principal and interest payments. As of the end of August 2023, the company had 7 PPP projects underway with total investment of around RMB 40 billion.

Economy and Industry Trends: Infrastructure investment continues to play an important role in underpinning economy and stabilizing growth. PPP remains one of the main methods of infrastructure construction, but its underlying mechanism may go through a fundamental change, where the returns on investment projects would come mainly from user payments in the future, leading to intensifying competition for investment projects. The soft land market and fiscal pressure facing local and regional governments pose a challenge to timeliness of project payments. Projects located in regions with weaker economic and fiscal positions and with lower-tier governments as counterparties may face an even worse situation. Solid relationships with banks and diversified access to financing should help ease debt repayment pressure.

Credit Highlights:

Business Risk Profile: We view the company's business risk profile as fair. Its investment activity requires the prior approval of CSCEC and comes under the parent's strict supervision. All PPP projects under the company's control are included in the PPP Management Database and comprise of favorable return mechanisms with limited market risk exposure. Most of its PPP projects are operational and starting to receive payments. The track record of performance and returns are so far in line with expectations, and the effective internal management and accumulating practical experience will also facilitate project operations. Nonetheless, the company's PPP projects are concentrated in Xi'an, presenting certain concentration risk. The city, while economically and fiscally strong, has a heavy debt burden and heavy reliance on land sales for revenue. Leveraging the strategic synergy with China Construction Engineering Sixth Bureau Co., Ltd. ("CSCEC Sixth Bureau"), the company is expected to expand its business beyond northwest China, which should improve the geographical diversity of its projects. We will closely monitor the progress in investment projects.

Financial Risk Profile: We view the company's financial risk profile as intermediate. The capital expenditure over the next 1 to 2 years are aimed at wrapping up PPP projects underway and investing in new projects. While leverage ratio remains high with interest-bearing debt mildly increasing, EBITDA and project payments should provide solid coverage for interest expenses. The company adopts prudent and strict approach to liquidity management and proactively manage debt maturity through rescheduling loan repayments with banks. Solid relationships with banks, diversified funding channels and well-arranged debt repayment plan enhance the company's financial strengths.

Holistic Adjustment: The one-notch downward adjustment mainly reflects our view on the concentration risk from all the company's projects being located in Xi'an.

External Influence: The company remains of high importance to CSCEC, of which it is a wholly-owned subsidiary. In our opinion, CSCEC has very strong indicative credit quality. The company plays an important role in carrying out and developing CSCEC's infrastructure business strategy, and acts as CSCEC's main executor of infrastructure development in northwest China. In our view, CSCEC's strict management of the company's investment operations and finances will continue for the foreseeable future, strengthening their linkage and allowing CSCEC to be in a position where it can provide timely extraordinary support when needed. At the same time, we do not expect CSCEC to sell or divest the company.

Rating Snapshot：

Issuer Credit Rating：	AA_{spc}+/Stable
Business Risk Profile：	4/Fair
— Industry Risk：	2/Low
— Competitive Position：	4/Fair
Financial Risk Profile:	3/Intermediate
Anchor：	a-
Adjustments	
— Diversification：	Neutral (no impact)
— Capital Structure：	Neutral (no impact)
— Financial Policy：	Neutral (no impact)
— Liquidity：	Adequate (no impact)
— Management & Governance：	Neutral (no impact)
— Holistic Adjustment:	-1
Stand-alone Credit Profile：	bbb_{spc}+
External Influence：	+6

Key Metrics：

	2022A	2023E	2024F
Debt/(EBITDA+ project payment) (x)	9.5	10.0-14.0	10.0-14.0
(EBITDA + project payment) interest coverage (x)	2.5	1.8-2.5	1.8-2.5

Note: Above data adjusted by S&P Global (China) Ratings. A- actual, E-estimated F-forecast.

Peer Comparison: (2021-2022 average value, RMB, million)

	CSCEC SilkRoad	CCCC Investment	CCCC Urban	CSCEC Fangcheng
Revenue	10,433	13,955	12,250	11,978
EBITDA	799	6,798	3,326	2,165
Debt/EBITDA (x)	32.6	10.6	4.0	15.7
EBITDA interest coverage (x)	0.7	2.0	7.2	1.3

Note: Above data adjusted by S&P Global (China) Ratings. CCCC Investment -- CCCC Investment Company Limited, CCCC Urban -- CCCC Urban Holding Company Limited, CSCEC Fangcheng -- China Construction Fangcheng Investment & Development Group Co., Ltd.

Source: CSCEC SilkRoad data includes data adjusted to account for off-balance sheet items. Peer company information from public information, adjusted by S&P Global (China) Ratings.

Assumptions and Forecasts

Assumptions

- In 2023 and 2024, the company's capital expenditure on PPP projects and other investment projects is RMB 3-6 billion per year.
- In 2023, the company issued RMB 2 billion in ABS backed by Xingfu Green Belt PPP project payments.
- In 2023 and 2024, PPP projects receive government payments of RMB 1.8-2.5 billion per year, disregarding the portion of project payments associated with ABS.
- PPP projects generate RMB 1.2-2.2 billion in repayments, after deducting the portion of project payments associated with ABS.
- The annual loan and interest repayment of PPP projects is around RMB 1.8-3.2 billion taking into account prepayment and debt maturity following ABS issuance.
- In 2023 and 2024, the company's EBITDA generated mainly from project management fees remains at RMB 900 million to RMB 1.1 billion.

Outlook

The stable outlook on CSCEC SilkRoad reflects our view that the company would continue to hold its strict investment approval process and investment standards for new investment projects over the next 24 months. Most of the company's PPP projects are now operational, and project returns should increase as operations mature. Its EBITDA combined with project returns should provide solid coverage for interest expenses. Solid bank-corporate relationships, diversified financing channels and well-arranged debt repayment plan enhance the company's financial strengths. As a wholly owned subsidiary of CSCEC, CSCEC SilkRoad 's strategic role in developing the infrastructure investment in northwest China would remain unchanged, and the company would continue to receive support from its parent CSCEC.

Upside scenario: We might consider upgrading the issuer credit rating of CSCEC SilkRoad if the importance of the company within the CSCEC group increases.

Downside scenario: Despite the low likelihood of occurrence in the short term, we might consider lowering the issuer credit rating of the company if: 1) the company's stand-alone credit profile materially deteriorates due to changes in its business risk profile and financial risk profile; 2) group support is weakened, which could occur if the company's importance to CSCEC is lowered, or CSCEC's indicative credit quality deteriorates significantly, resulting in a decline in the group's indicative support ability that it struggles to recover from; 3) the company's authority over the financial management of its projects changes significantly.