

## Surveillance Credit Rating Report:

# Shenergy (Group) Co., Ltd.

Issuer Credit Rating\*: AAA<sub>spc</sub>; Outlook: Stable

Rating Date: July 19, 2023

Date of Expiry: July 18, 2024

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## Tear Sheet

| Company Name               | Rating Type          | Current Rating     | Rating Date   | Date of Expiry | Outlook/CreditWatch |
|----------------------------|----------------------|--------------------|---------------|----------------|---------------------|
| Shenergy (Group) Co., Ltd. | Issuer Credit Rating | AAA <sub>spc</sub> | July 19, 2023 | July 18, 2024  | Stable              |

**Industry Classification:** Regulated utilities/unregulated power and gas.

**Company Overview:** Shenergy (Group) Co., Ltd. ("Shenergy" or "company") is a state-owned enterprise wholly-owned by Shanghai State-owned Assets Supervision and Administration Commission (Shanghai SASAC). It invests in, constructs and manages electrical power and gas infrastructure projects, and plays an important role in Shanghai's energy security. Main revenue sources are from its gas and power business. In 2022, the company's retail gas sales volume was 8.91 billion cubic meters and total power output of 53.74 billion kWh. By the end of March 2023, the company had controlled installed capacity of 16.12 GW, generating 13.41 billion kWh of electricity from January to March. By the end of March 2023, it held total assets of 213.07 billion RMB, net assets of 123.51 billion RMB (including minority shareholders' equity). Its operating revenue was 17.94 billion RMB and net income was 690 million RMB from January to March 2023.

**Economy and Industry Trends:** We expect China's GDP growth in 2023 to significantly recover from that in 2022. The recovery will be largely built on an uptick in domestic consumption and investment. As domestic demand increases inflation may rise, but we expect it to remain within the target range. In our view, China's carbon targets and ongoing development of natural gas infrastructure can continue to boost domestic gas demand and support gas distributors' sales. The impacts of geopolitical conflicts and other factors on global gas supply and demand are gradually easing, which is expected to push down international gas prices from the peak and alleviate distributors' margin pressure. In 2023, thermal power generators' profitability may further improve along with fuel cost decline, and the overall power sector will keep high capex on new energy. We expect Shanghai's demand for power to stay strong, with energy consumption maintaining steady growth in the next 1 to 2 years.

**Business Risk Profile:** The company's business risk profile maintains strong. It has a monopoly over gas in Shanghai, where tariff mechanisms are clear and being constantly improved. The company has effective upstream and downstream integration. Its diversified gas sources help ensure sufficient gas supply and improve flexibility on costs. However, the company has limited control over gas costs, which can cause unstable profits. The company plays an important role in supplying power to Shanghai. Its power supply business utilizes highly efficient equipment, and the company is gradually moving to diversify its energy mix. Accelerated market-oriented reforms can ease cost pressures, while expansion into new energy should help stabilize profits. However, pressure from fluctuating costs may continue due to limited control over upstream coal prices.

**Financial Risk Profile:** Financial risk maintains "modest". Leverage is somewhat volatile but largely controllable, amid changes in fuel prices. At the same time, low financing costs can help maintain interest coverage at a high level. We expect capex to increase as the company expands its new energy and natural gas infrastructure. This, alongside other investments, would increase its debt, but the company has sufficient credit lines and good access to financing channels, and is expected to maintain strong refinancing capacity.

**Capital Structure:** We have made a one-notch upward adjustment to reflect the company's significant holdings of high-quality, highly-liquid financial assets. These enhance its financial flexibility and help to mitigate financial risks.

**External Influence:** Shenergy is 100% controlled by Shanghai SASAC, and is critical to Shanghai Municipal Government. As Shanghai's sole energy platform, the company plays a key role in the city's energy security and in forming and implementing Shanghai's energy strategy. It is highly irreplaceable, and we expect Shanghai Municipal Government to maintain its holding position and control over the company going forward.

**Key Metrics:**

|                           | 2022A | 2023E   | 2024F     |
|---------------------------|-------|---------|-----------|
| FFO/debt (%)              | 24.3  | 17-22   | 18-23     |
| FFO interest coverage (x) | 8.6   | 7.5-8.5 | 8-9       |
| EBITDA margin (%)         | 11.3  | 13-15   | 16.5-18.5 |

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

**Rating Snapshot:**

**Issuer Credit Rating:** AAA<sub>spc</sub>/Stable

**Business Risk Profile:** 2/Strong

Industry Risk: N/A

Competitive Position: N/A

**Financial Risk Profile:** 2/Modest

**Anchor:** a+

**Adjustments**

Diversification: Neutral (no impact)

Capital Structure: Positive (+1 notch)

Financial Policy: Neutral (no impact)

Liquidity: Adequate (no impact)

Management & Governance: Neutral (no impact)

Comparable Rating Analysis: Neutral (no impact)

**Stand-alone Credit Profile:** aa<sub>spc</sub>-

**External Influence:** +3

Note: Industry Risk, Competitive Position not applicable due to company spanning multiple industries.

**Relative Position of Shenergy in Distribution of Indicative Credit Quality of 1,400 Corporates**



Note: Red bar represents median indicative credit quality of about 1,400 sampled companies, yellow bar represents Shenergy's position.  
Source: S&P Global (China) Ratings.  
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**Peer Comparison:** (2021-2022 average value, RMB, millions)

|                           | Shenergy | CR Gas | Shenzhen Gas | Beijing Energy |
|---------------------------|----------|--------|--------------|----------------|
| Revenue                   | 62,934   | 74,692 | 25,738       | 85,614         |
| EBITDA                    | 7,919    | 10,389 | 2,959        | 23,844         |
| FFO/debt (%)              | 32.6     | 62.1   | 26.1         | 7.6            |
| FFO interest coverage (x) | 9.9      | 20.8   | 9.4          | 2.7            |

Note: Above data adjusted by S&P Global (China) Ratings; Source: Shenergy. Peer company information from public information, adjusted by S&P Global (China) Ratings.

## Assumptions and Forecasts

### Assumptions

- In 2023 and 2024, revenue decreases by 4-8% and 0-5% respectively, considering sharp fall in revenue from real estate and merchandise trade segments.
- In 2023 and 2024, capex is 14-15 billion RMB and 13-14 billion RMB respectively, with spending focused on constructing new energy and natural gas infrastructure.
- In 2023 and 2024, the gas retail dollar margin is 0.4-0.5 RMB/m<sup>3</sup> and 0.45-0.55 RMB/m<sup>3</sup> respectively.
- In 2023 and 2024, the price of standard coal purchased by the company net of tax is 1,050-1,150 RMB/tonne and 880-980 RMB/tonne respectively.
- In 2023 and 2024, the company receives cash dividends from its financial assets of 2-2.5 billion RMB each year.
- In 2023 and 2024, dividend payouts to shareholders are 1.5-2 billion RMB respectively.

### Outlook

The stable outlook on Shenergy reflects our view that it shall continue playing an important role in Shanghai's energy security, remaining critical to Shanghai Municipal Government. The company should maintain its monopoly over gas in Shanghai, acquiring gas from a diverse range of sources. Its power supply business should maintain a leading market share and good unit operating efficiency in Shanghai and installed new energy capacity is set to increase. The change in natural gas and coal prices, along with increased capex, may see leverage fluctuate. However, we expect it to maintain low financing costs and strong access to financing. Coverage of FFO to interest should stay high.

**Upside scenario: Not applicable.**

**Downside scenario:**

We might consider lowering the rating of the company if:

The company's importance to Shanghai Municipal Government deteriorates. This scenario could occur if i) the company's role in local energy security is significantly diminished; ii) the company's monopolistic role and advantages are significantly reduced; or iii) there is a change in the ownership structure, where Shanghai Municipal Government's holding in the company is weakened, or the company is no longer directly controlled by Shanghai SASAC.

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