Moody's

Rating Action: **Moody's places four local SOEs' ratings on review for downgrade following sovereign action**

06 Dec 2023

Hong Kong, December 06, 2023 -- Moody's Investors Service has today placed the ratings of four state-owned enterprises (SOEs) owned by regional and local governments (RLGs) on review for downgrade. Previously, the outlooks were stable for Guangxi Beibu Gulf International Port Group (GBG),Guangxi Investment Group Co. Ltd (GXIG), and Hualu Holdings Co., Ltd. (Hualu); and negative for Shum Yip Group Limited (Shum Yip).

These rating actions follow Moody's decision to affirm the Government of China's issuer rating at A1 and change in the outlook to negative from stable.

For further information on the sovereign rating action, please refer to Moody's press release published on 5 December 2023: ("Moody's affirms China's A1 rating, changes outlook to negative from stable")

"The review for downgrade is driven by Moody's assessment of downside risks to the ratings of these local SOEs, considering the government will likely prioritize support for SOEs owned by the central government over local SOEs, those with public policy mandates over highly commercialized SOEs, and those with high strategic importance such as companies providing national security and key infrastructure. This could lead to a reduction of the support uplift incorporated in these companies' ratings," says Clement Wong, a Moody's Associate Managing Director.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL482956 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Today's rating actions are primarily driven by the change in outlook to negative from stable on China's government credit ratings. The outlook change reflects rising evidence that financial support will be provided by the government and wider public sector to financially-stressed regional and local governments (RLGs) and State-Owned Enterprises (SOEs), posing broad downside risks to China's fiscal, economic and institutional strength. The rating action also reflects the increased risks related to structurally and persistently lower medium-term economic growth and the ongoing downsizing of the property sector. These trends underscore the increasing risks related to policy effectiveness, including the challenge to design and implement policies that support economic rebalancing while preventing moral hazard and containing the impact on the sovereign's balance sheet. As such, Moody's expects support provided to financial-stressed entities to be more selective, contributing to protracted risks of further strains for SOEs and RLGs.

The rating action also reflects Moody's assessment on the risk of potentially lowered government support for the affected companies. The agency assesses that central government support will be more selective and lower than in the past, as several government directives have re-emphasized the need for RLGs to manage debt issues in their own jurisdictions. These policy directives are consistent with the government's objective of deleveraging and de-risking the government sector. Support for non-LGFV state-owned enterprises (SOEs), including government-related issuers (GRIs), will likely decline in tandem.

The government will prioritize supporting SOEs owned by the central government over local SOEs, those with public policy mandates over highly commercialized SOEs, and companies with high strategic importance such as those providing national security and key infrastructure.

These considerations could lead to lower government support assumptions or a reduction of the support uplift incorporated in the ratings of the affected local SOEs.

GBG

GBG's Baa3 issuer rating combines its b1 Baseline Credit Assessment (BCA) and a four-notch uplift, reflecting Moody's assessment of a high likelihood of support from and high dependence on the Government of the Guangxi Zhuang Autonomous Region (Guangxi government) and ultimately, the Government of China.

GXIG

GXIG's Baa2 issuer rating combines its ba3 BCA and a four-notch uplift, reflecting Moody's assessment of a high likelihood of support from and high level of dependence on the Guangxi government, and ultimately, the Government of China.

Hualu

Hualu's A3 issuer rating combines its baa3 BCA and a three-notch uplift, reflecting Moody's assessment of a high likelihood of support from and high level of dependence on the Shandong provincial government and, ultimately, the Government of China.

Shum Yip

Shum Yip's Baa1 issuer rating combines its ba1 BCA and a three-notch uplift, reflecting Moody's assessment of a high likelihood of support from and high level of dependence on the Shenzhen municipal government and, ultimately, the Government of China.

Shum Yip's previous negative outlook reflected the uncertainties over its ability to recover its weakened credit metrics commensurate with its current rating over the next 12-18 months, amid uncertain recovery prospects for China's property markets.

Moody's review will focus on whether the existing support assumptions and rating uplifts incorporated in the companies' ratings remain appropriate under the context of a potentially lower sovereign rating and the Chinese government's lower ability and willingness to support local SOEs.

Moody's could confirm the ratings if the agency assesses that its current assumption of government support and the rating uplifts remain appropriate for the companies' ratings. Otherwise, the agency could downgrade the ratings.

Moody's could also downgrade the ratings if their BCAs are downgraded.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL482956 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Principal Methodologies and Models Used

• Support Level of Government Support

• Dependence Level of Government Support

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL482956 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Endorsement

• Lead Analyst

• Releasing Office

• Person Approving the Credit Rating

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Moody's considers a rated entity or its agent(s) to be participating when it maintains an overall relationship with Moody's. Unless noted in the Regulatory Disclosures as a Non-Participating Entity, the rated entities are participating and the rated entities or their agent(s) generally provide Moody's with information for the purposes of its ratings process. Please refer to https://ratings.moodys.com for the Regulatory Disclosures for each credit rating action, shown on the issuer/deal page, and for Moody's Policy for Designating Non-Participating Rated Entities, shown on https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The below contact information is provided for information purposes only. For disclosures on the lead rating analyst and the Moody's legal entity that issued the rating, please see the issuer/deal page on https://ratings.moodys.com for each of the ratings covered.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

The first name below is the lead rating analyst for this Credit Rating and the last name below is the person primarily responsible for approving this Credit Rating.

Clement Cheuk Yiu Wong
Associate Managing Director
Corporate Finance Group
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong,
China (Hong Kong S.A.R.)
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Gary Lau
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong,
China (Hong Kong S.A.R.)
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077
