



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

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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.

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- Principal Methodologies and Models Used
- Support Level of Government Support
- Dependence Level of Government Support

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