

CCXAP assigns first-time long-term credit rating of BBB_g to Zhenjiang Transportation Industry Group Co., Ltd., with stable outlook.

Hong Kong, 17 August 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g long-term credit rating to Zhenjiang Transportation Industry Group Co., Ltd. (“ZJTI” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of Zhenjiang Transportation Industry Group Co., Ltd. (“ZJTI” or the “Company”) reflects Zhenjiang Municipal Government’s strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Zhenjiang Municipal Government’s capacity to support reflects Zhenjiang City’s good economic strength, moderate fiscal metrics and debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership and ultimate control by Zhenjiang Municipal Government; (2) strong policy role in the development of Zhenjiang City, undertaking major local transportation infrastructure constructions; (3) good track record of receiving government payments; and (4) diversified and stable funding sources. However, the Company’s rating is constrained by its (1) moderate debt management with short-term debt burden; and (2) high contingent liability risk.

Corporate Profile

Established in November 1992, ZJTI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Zhenjiang City, Jiangsu Province. ZJTI engages in local infrastructure construction, resettlement housing construction and land development in Zhenjiang City. It is also involved in different commercial businesses including trading, road and bridge construction services, port operations and automobile sales. ZJTI is fully owned by the Zhenjiang State-Owned Assets Supervision and Administration Commission of Zhenjiang Municipal Government (“Zhenjiang SASAC”) through 55% direct ownership and 45% indirect ownership via the Zhenjiang State-owned Investment Holding Group Co., Ltd. (“ZJSOIH”), who is wholly owned by the Zhenjiang SASAC.

Rating Rationale

Credit Strengths

Strong policy role in the development of Zhenjiang City. ZJTI is the third largest LIIFC in Zhenjiang City by total assets and is mandated to develop local infrastructure projects in Zhenjiang City, with a particular focus on transportation. It is also the only LIIFC engaged in infrastructure construction and land development projects in the Guantang Innovation Community Area (“Guantang Area”).

Holding of major assets in local public activities. ZJTI holds a huge bundle of assets in local public activities including infrastructure construction and operation, land development, and resettlement housing construction. The Company also provides public transportation services

in Zhenjiang City. We consider the importance of ZJTI's public assets to be high overall because they provide a strong benefit to the general public. Nevertheless, the scale of project reserves for ZJTI may reduce because of the slowdown in local infrastructure demand and government planning.

Low exposure to commercial business activities. ZJTI is engaged in diversified commercial activities such as trading, road and bridge construction services, inland terminal depot services and secondary property development. As of the end of 2021, those commercial activities accounted for less than 10% of its total assets by our estimation. Despite the Company's low exposure to commercial businesses, we expect it to increase moderately in the near future as investment in secondary property development in the Guantang Area increases.

Good track record of receiving government payments. ZJTI has a solid track record of receiving government payments in various forms, including financial subsidies, repurchase payments and cash injections. ZJTI has received strong government payments amid the government's active response to address implicit local debts. The Company has received government debt resolution payments of around RMB12.5 billion and project repayments of RMB5.4 billion over the past three years.

Credit Challenges

Moderate debt burden. ZJTI has invested heavily in transportation infrastructure projects and public-related assets, creating a moderate debt burden on the Company. As of the end of March 2022, ZJTI had a total debt amount of RMB70.5 billion and short-term debt of RMB36.4 billion. Its moderate debt burdens may be mitigated by good access to multiple financing channels including bank loans, trust loans, and onshore and offshore bond issuances.

High exposure to contingent liability while risk limited mainly to local SOEs. ZJTI has high exposure to contingent liabilities relative to its equity, which has constrained its rating. As of 31 March 2022, the Company has provided external guarantees of RMB23.7 billion to third parties, equivalent to 49.1% of its net asset. Most of these external guarantees were provided to other local LIIFCs or state-owned enterprises, and part of these guarantees had sufficient counter-guarantee measures.

Rating Outlook

The stable outlook on ZJTI's rating reflects our expectation that the Zhenjiang Municipal Government's capacity to provide support will remain stable, and the Company's characteristics such as its primary role in transportation infrastructure construction will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Zhenjiang Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially decreasing its exposure to external guarantees or loans and improving its financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Zhenjiang Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decreasing strategic significance, decreasing government payments, or increasing exposure to risky commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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

Vincent Tong

Assistant Director of Credit Rating

+852-2860 7125

vincent_tong@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com



Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656