CCXAP assigns first-time long-term credit rating of BBB$_g$- to Jiangsu Pingling Construction Investment Group Co., Ltd., with stable outlook.

Hong Kong, 7 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time BBB$_g$- long-term credit rating to Jiangsu Pingling Construction Investment Group Co., Ltd., ("JPCI" or the "Company"), with stable outlook.

The BBB$_g$- long-term credit rating of the Company is underpinned by the Company's (1) large investment portfolio that is aligned with the government policies and economic focus in Liyang City; and (2) relatively low debt leverage.

The rating also reflects high likelihood of government support from the Liyang government when needed, which is based on the Company's (1) direct and full ownership by the Liyang government; (2) high strategic position and clean functional role in Liyang City; and (3) solid track record of receiving ongoing government support, including subsidies, capital injections and asset transfers.

However, the rating is constrained by the Company's (1) high credit contagion risks in financial services; (2) unproven investment track record with relatively low asset liquidity; and (3) modest access to funding channels.

Corporate Profile

Established in 2015, JPCI is an investment holding company that is directly owned and controlled by the Liyang government. The Company is one of the key state-owned enterprises of Liyang City that is mandated by the local government to undertake the functions of industrial investments, state-owned asset operation and state-owned capital management. It has a high strategic position to support regional economic development and upgrade of local industrial base. JPCI engages in different business segments including commercial services of security, training and product testing, as well as financial services such as micro-lending, financing guarantee and fund custody. It also invests in local investment properties and investment funds in industries, such as new energy, production of new materials and advanced manufacturing. As of 31 December 2021, the Company reported total assets of RMB11.4 billion and net assets of RMB6.8 billion, at consolidated level.

Rating Rationale

Credit Strengths

High likelihood of support from the Liyang government. We expect a high likelihood of government support from the Liyang government to JPCI in times of need. This expectation incorporates our considerations of the Company's (1) direct and full ownership by the Liyang government; (2) high strategic position and clean functional role in developing local strategic industries and incubating enterprises in Liyang City; and (3) solid track record of receiving ongoing government support, including subsidies, capital injections and asset transfers. In 2021, the Finance Bureau of Liyang City injected RMB2.7 billion of cash into the Company.

Fast-growing investment portfolio underpinned by the industrial development of Liyang City. JPCI is entrusted by the government to conduct industrial investments and financial service operations in Liyang City, with a high strategic policy role in local industrial support and upgrade. The Company's investments focus on the four major industries of Liyang City, namely advanced manufacturing, high-end leisure, modern health, and new intelligence. Underpinned by the industrial development of Liyang City, the scale of JPCI's investments has expanded fast. The Company's total asset has grown to RMB11.4 billion at end-2021 from RMB7.3 billion at end-2019, at consolidated level.

Credit Challenges

Unproven investment track record with relatively low asset liquidity. JPCI has a relatively limited history in exit records as most of its investments are still at the early stage of development and their investment returns are yet to be proven. In addition, most of JPCI's investments are private projects or at the initial investment stage that require a long holding period for JPCI. This will largely weaken JPCI's asset liquidity as such investments are more difficult to dispose of or are required to sell under a large price discount, particularly when the market environment is stressed.

High credit contagion risks in financial guarantee and lending businesses. JPCI is exposed to high credit contagion risk stemming from its financial guarantee and lending businesses. The Company's subsidiaries of financial services, namely Liyang Small and Medium Enterprises Financing Guarantee Co., Ltd. and Liyang Qingfeng Technology Micro-Lending Co., Ltd., are relatively weak in business performance and required financial support from JPCI to meet its operational needs in the past.

Modest access to funding channels. The Company has still no presence in the domestic debt capital market and largely relies on bank borrowings and non-standard financing to support its business. Bank borrowings accounted for around 73% of its total debts at consolidated level, as of 30 June 2022. The Company relied on non-standard financing, accounting for about 27% of its total debt at consolidated level, particularly in financial leases.

Rating Outlook

The stable outlook on JPCI's rating reflects our expectation that the willingness and ability of the local government to provide support is unlikely to change over the next 12 to 18 months. We also expect the Company to maintain a relatively stable business and financial profile.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support increases such as greater strategic importance or more policy roles in Liyang City; (2) the Company's standalone credit profile improves, such as improved asset quality and improved funding channels; and (3) the Company has lower risk exposure to financing guarantee and micro-lending businesses.

What could downgrade the rating?

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The rating could be downgraded if (1) the likelihood of receiving government support decreases such as significantly decreasing ownership by the Liyang government; or (2) the Company's standalone credit profile worsens, such as sharp decrease in asset quality or unexpected decline in liquidity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Investment Holding Companies (December 2016).

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