

CCXAP assigns first-time long-term credit rating of BBB_g- to Jining High Tech Urban Construction Investment Co., Ltd., with stable outlook

Hong Kong, 20 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Jining High Tech Urban Construction Investment Co., Ltd. (“JHUC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of Jining High Tech Urban Construction Investment Co., Ltd. reflects Jining High-tech Zone Government’s relatively strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Jining High-tech Zone Government’s capacity to provide support reflects its status as a national-level high-tech industrial development zone, as well as the local government’s good economic strength, moderate fiscal metrics and debt profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction in Jining High-tech Zone; (2) good track record of receiving government payments; and (3) good access to funding from banks and the bond market. However, the Company’s rating is constrained by its (1) high exposure to commercial activities; (2) moderate debt growth and weak asset liquidity; and (3) high contingent liability risk.

Corporate Profile

Jointly founded by Jining High-tech Zone Land Reserve Management Center and Jining High-tech Industrial Development Zone Property Management Center in 2008, JHUC is an important infrastructure construction investment and operation company in Jining High-tech Zone. It is responsible for undertaking major infrastructure construction and shantytown renovation projects in the Zone. It is also involved in commercial businesses including property development and leasing. As of 30 June 2022, and after the share transfer in 2009, the Company was wholly-owned by Jining High-tech Holding Group Co., Ltd. (“JHHG”), and its ultimate controlling shareholder was Jining High-tech Zone State-owned Capital Management Office (“Jining High-tech Zone SOCMO”).

Rating Rationale

Credit Strengths

Important role in infrastructure construction in Jining High-tech Zone. As an important infrastructure construction arm of JHHG, the Company is mainly responsible for the infrastructure construction in the Zone, including the construction or upgrade of educational buildings, hospitals, road reconstructions, and shantytown renovations in the Zone. As of 30 June 2022, it has completed 22 infrastructure projects, with a total investment of RMB6.2 billion. Given its important role in local infrastructure construction, we believe that the Company is unlikely to be replaced in the foreseeable future.

Good track record of receiving government payments. JHUC has a proven track record of receiving government payments in the form of capital injections, asset transfers, project payments, and subsidies. We expect the local government will continue to provide support to the Company, given its strong public policy role and the large number of public projects under construction.

Good access to funding from banks and the bond market. JHUC has access to multiple financing channels, including bank loans and bond issuances. As of 30 June 2022, the Company has obtained a total of RMB6.7 billion in bank credit facilities, with an unused portion of RMB3.5 billion, indicating a relatively sufficient liquidity buffer. In terms of direct financing, the Company had issued various tranches of medium-term notes and private placement notes in the onshore debt market, with an outstanding balance of RMB4.8 billion as of 30 June 2022. The Company also has access to offshore financing channels and raised USD282 million in 2020. In addition, the Company's reliance on non-standard financing is low, accounting for less than 5% of its total debt.

Credit Challenges

High exposure to commercial activities. JHUC's main commercial activities include leasing and property development businesses. The Company's exposure to commercial activities is high, accounting for more than 30% of its total assets. However, we believe the Company's commercial risk is manageable, as the leasing business can provide stable supplemental income, while the scale of the property development business is small.

Moderate debt growth and weak asset liquidity. Due to continued financing of construction projects, JHUC has shown moderate debt growth over the past three years. Its total debt has increased from RMB4.9 billion at end-2019 to RMB7.9 billion at mid-2022, with a total capitalization ratio of 43.9%. In addition, JHUC's asset liquidity is weak. As of 30 June 2022, the Company has a large number of restricted assets such as land, office buildings, and industrial plants, totaling RMB5.7 billion and accounting for around 27% of the total assets. The large amount of restricted assets may undermine its financing flexibility, which is credit negative.

High contingent liability risk. JHUC has a high exposure to contingent liabilities. As of 30 June 2022, the Company's external guarantee amounted to RMB5.6 billion, accounting for 55% of its net assets. Although all of the guaranteed companies are state-owned enterprises in Jining High-tech Zone with stable operations, the Company may face considerable contingent liability risk should a default event occurs, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on JHUC's rating reflects our expectation that the Jining High-tech Zone government's capacity to provide support will be stable, and that the Company will maintain its important role in Jining High-tech Zone's infrastructure construction and shantytown renovation projects over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Jining High-tech Zone Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as consistent increases in government payments, reduced exposure to risky commercial activities, and improved debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) Jining High-tech Zone Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decreased government payments, or weakened financing capabilities.

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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http://www.ccxap.com/en/rating_services/category/6/

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