

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

Hong Kong, 7 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g- to Jiangshan Urban Construction Investment Co., Ltd. (“JUCI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of JUCI reflects (1) Jiangshan City Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Jiangshan City Government’s capacity to provide support reflects Jiangshan City’s status as the second largest district/county by gross regional product (“GRP”) in Quzhou City, with fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy role in the provision of public activities in Jiangshan City; and (2) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) moderate exposure to commercial business activities; and (2) moderate debt management with ongoing investment needs in public projects.

Corporate Profile

Established in 2018, JUCI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Jiangshan City, Quzhou City. As the main operator and developer in Jiangshan City, the Company engages in diversified businesses, including public businesses such as infrastructure construction, land consolidation, resettlement housing, and utilities businesses including water, electricity and gas supply, as well as commercial businesses such as mining, and property leasing. As of 30 June 2022, the Company was directly and wholly owned by Jiangshan State-owned Assets Management Co., Ltd., which in turn ultimately controlled by Finance Bureau of Jiangshan City.

Rating Rationale

Credit Strengths

Important policy role in provision of public activities in Jiangshan City. As the major LIIFC in Jiangshan City, JUCI’s main businesses are closely related to the economic and social development of the region, ranging from infrastructure construction, land consolidation, resettlement housing to utility services such as the provision of water, electricity and gas. It plays an important role in the urban planning and municipal construction works of the Jiangshan City Government. Given that JUCI owns large number of infrastructure and utility assets in Jiangshan City, we believe that the cost of replacing the Company is high and its risk of substitution is low.

Good track record of receiving government payments. JUCI has a good track record of receiving payments from the local government in terms of capital injections, asset injections,

financial subsidies and project proceeds for infrastructure construction and land consolidation projects. The local government injected equity shares and properties with a total amount of RMB150 million in 2020 and 2021 respectively. Furthermore, the local government consistently provides subsidies to the Company to support its operation, with a total amount of RMB204 million from 2019 to 2022H1. As of mid-2022, the Company had received government payments of RMB315.4 million from infrastructure construction and land consolidation projects.

Credit Challenges

Moderate exposure to commercial business activities. JUCI also engages in commercial business activities, including mining, property leasing and photovoltaic (“PV”) power generation, which generate supplementary revenue to the Company. We estimate that JUCI had moderate commercial exposure, with the assets of commercial businesses accounting for 10% to 15% of its total assets. Given the Company’s plan to develop different kinds of commercial business, the exposure to commercial business is expected to increase gradually.

Moderate debt management with ongoing investment needs in public projects. JUCI has moderate debt management with fast debt growth mainly because of ongoing investment in public activities. The Company’s total debts (including government bond funds) increased from RMB730.8 million at end-2019 to RMB5.6 billion at mid-2022, with capitalization ratio of 50.9%. As of 30 June 2022, there were 12 key public projects under construction with a planned investment of RMB8.7 billion and an uninvested amount of RMB6.2 billion, and 6 key public projects under planning with a planned investment of RMB1.9 billion. Given its sizable future investment in public activities, we expect the Company’s debt leverage will maintain at a relatively high level in the next 12 to 18 months.

Rating Outlook

The stable outlook on JUCI’s rating reflects our expectation that Jiangshan City Government’s capacity to provide support will remain stable, and the Company will maintain its vital position in Jiangshan City.

What could upgrade the rating?

The rating could be upgraded if (1) Jiangshan City Government’s capacity to support strengthens; and (2) the Company’s characteristics change in a way that strengthens the local government’s willingness to support, such as a substantial reduction in commercial activities or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Jiangshan City 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 a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.



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.

Peter Chong

Senior Analyst

+852-2860 7124

peter_chong@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