

CCXAP affirms Jinan Economic Development Investment Co., Ltd.'s long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 19 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Jinan Economic Development Investment Co., Ltd., Ltd. (“JEDI” or the “Company”) at BBB_{g-}. The rating outlook is stable.

The BBB_{g-} long-term credit rating of Jinan Economic Development Investment Co., Ltd. (“JEDI” or the “Company”) reflects Jiyang District Government’s (1) relatively strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Jiyang District Government’s capacity to provide support reflects its ongoing integration into the economic development of Jinan City, and its relatively good fiscal stability.

The rating also reflects the local government’s very high willingness to support, which is based on the Company’s (1) close linkage with the local government; (2) key strategic role in infrastructure construction of Jiyang District; and (3) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate debt management and relatively weak asset liquidity; and (3) medium exposure to contingent liability risk.

Corporate Profile

Founded in 2012, JEDI is one of the major investment and financing platforms in Jiyang District, Jinan. As a wholly-owned subsidiary of Jiyang State-owned Assets Investment Holding Group Co., Ltd. (“JSAI”), the largest infrastructure investment and financing entity in Jiyang District, the Company is mainly engaged in infrastructure construction, primary land consolidation, resettlement housing development, and commodity trading in Jiyang District. As of 30 June 2022, the Company was wholly and directly held by JSAI, and the Finance Bureau of Jiyang District was the ultimate controlling shareholder of the Company.

Rating Rationale

Credit Strengths

Key strategic role in infrastructure construction of Jiyang District. After the asset transfers from its parent company in 2021, JEDI has become a key state-owned investment and financing entity in Jiyang District to implement government blueprint of local urbanization and infrastructure development. The Company has undertaken a number of municipal infrastructure construction, land consolidation, and resettlement housing construction projects in the region. In March 2022, it newly engaged in heat supply business through acquisition of a local heat supply company, further consolidating its business position. We believe that the Company will maintain an important position in the public policy projects in Jiyang District and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government supports. JEDI has a proven track record of receiving support from the local government in terms of capital injections, construction project payments and subsidies. In August 2021, JSAI transferred the equity interests of several state-owned enterprises and a land consolidation project to the Company, which enhanced its capital strength and broadened its business mix. After the asset transfer, the Company has continued to receive capital injections from its parent company. Furthermore, the Company has signed agreements for its public policy projects with the local government, which ensures the predictability of the project payments. We believe that, given the important position of JEDI and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

Credit Challenges

Medium exposure to commercial activities. Apart from public-related activities, JEDI also engages in several commercial activities, mainly including construction of self-operated projects and trading. We consider JEDI's commercial business exposure to be medium, accounting for 15% to 20% of its total assets. However, we expect that the commercial business risk is manageable, as most of the self-operated projects are key projects in Jiyang District, developed under the guidance of the local government to promote industrial and social development.

Moderate debt management and relatively weak asset liquidity. Due to the ongoing financing for the construction projects, JEDI's total debt has continued to increase after the asset transfer in 2021. The Company's total debt increased from RMB2.9 billion at end of August 2021 to RMB5.4 billion at mid-2022, while the total capitalization ratio increased from 24.3% to 35.4%. In addition, JEDI's asset liquidity is relatively weak, which may undermine the Company's financing flexibility.

Medium exposure to contingent liability risk. JEDI has a relatively large amount of external guarantees. As of 30 June 2022, the Company's external guarantee amount was RMB1.8 billion, accounting for 18.7% of its net assets. However, all the external guarantees are provided to local state-owned enterprises in Jiyang District such as JSAI and its affiliates. Due to the concentration of the guaranteed enterprises, the Company may face considerable contingent liability risks when a default event occurs, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on JEDI's rating reflects our expectation that Jiyang District Government's capacity to provide support will be stable, and the Company's characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Jiyang District Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local



government's willingness to provide support, such as materially lowering exposure to risky commercial activities, or improving debt management and asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) Jiyang District 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 or decreased government payments.

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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