CCXAP assigns first-time long-term credit rating of BBB_g- to Jinzhou State Owned Capital Investment and Operation Group Co. Ltd, with stable outlook.

Hong Kong, 28 February 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time BBB_g- long-term credit rating to Jinzhou State Owned Capital Investment and Operation Group Co. Ltd ("JZSI" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of JZSI reflects Jinzhou Municipal Government's (1) relatively strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Jinzhou Municipal Government's capacity to support reflects Jinzhou City's relatively good comprehensive strength in Liaoning Province, with moderate economic growth and fiscal metrics.

The rating also reflects the local government's extremely high willingness to support, which is based on the Company's (1) full ownership and ultimate control by the Jinzhou Municipal Government; (2) important policy role in Jinzhou City as the largest state-owned enterprise; (3) good track record of receiving government supports. However, the Company's rating is constrained by its (1) foreseeable debt growth driven by the infrastructure construction projects; (2) medium exposure to commercial activities; and (3) tight liquidity profile with limited bank facilities.

Corporate Profile

Founded in March 2017, JZSI has become the largest local infrastructure investment and financing company ("LIIFC") in Jinzhou City, Liaoning Province, after the consolidation of two major LIIFCs which are Jinzhou Urban Construction Investment Development (Group) Co., Ltd. and Jinzhou Huaxin Asset Management (Group) Co., Ltd. The Company is primarily responsible for infrastructure construction, operation of state-owned assets, and provision of public services such as heat supply, water supply, policy-oriented grain storage in Jinzhou City. Apart from its public-policy businesses, the Company is engaged in commercial activities including trading, tourism and hotel services, as well as construction and operation of self-operated properties such as industrial zones, logistic center, and cloud computing center. As of 30 September 2022, the Company is directly and wholly owned by the State-owned Assets Supervision and Administration Commission of Jinzhou Municipal Government ("Jinzhou SASAC").

Rating Rationale

Credit Strengths

Important policy role in Jinzhou City as the largest state-owned enterprise. JZSI is the most important state-owned enterprise in Jinzhou City, which controls and manages most of the key LIIFCs in the region. The Company has a clear positioning to promote industrial development, infrastructure construction, and provide public services, as well as the operation of state-owned assets. We believe that the strategic position of JZSI in Jinzhou City's economic development and public welfare remains strong and will not be easily replaced in the short-to-medium term.

Track record of receiving government payments. JZSI has a track record of receiving support from the Jinzhou Municipal Government, including equity transfer, operating subsidies, as well as capital injections. In order to consolidate the Company into the largest and the most important LIIFC in Jinzhou City, the local government has transferred the equity of several major LIIFCs engaging in diversified businesses to the Company since 2020. It has become an all-around city operator in Jinzhou City, with a wide range of business coverage.

Credit Challenges

Medium exposure to commercial activities. JZSI's major commercial activities include trading, tourism and hotel services, as well as construction and operation of self-operated assets such as cloud computing center, logistic centers and several industrial zones. We consider JZSI's exposure to commercial activities to be moderate, accounting for less than 30% of its total assets. Although the commercial activities can bring in supplemental income, they may also pose higher operating and business risks to the Company comparing with its public-policy businesses.

Foreseeable debt growth driven by the infrastructure construction projects. Although the EPC project can ensure relatively high sustainability for its infrastructure construction, we expect JZSI's capital expenditure will significantly increase and the project's initial investment may require external debt issuance. The Company requires to design, invest, construct, operate, and maintain these sub-items, with a total investment of more than RMB4.2 billion and uninvested amount of approximately RMB3.7 billion.

Tight liquidity profile with limited bank facilities. The Company showed low standby liquidity due to the limited bank facilities. As of 30 September 2022, the Company had obtained total bank facilities of RMB18.0 billion, but only RMB480 million were available, which constrained its financial flexibility. Considering the Company's limited available credit facilities amount, relatively high refinancing pressure with around 30% proportion of short-term debt to total debt, and large investment amount on its EPC project, an additional funding channel is required to fulfil the increasing capital expenditure, such as the offshore debt capital market.

Rating Outlook

The stable outlook on JZSI's rating reflects our expectation that the local government's capacity to support will remain stable and the Company will maintain its important policy role in infrastructure construction and provision of public services in Jinzhou City.

What could upgrade the rating?

The rating could be upgraded if (1) Jinzhou Municipal 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 lower the exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Jinzhou 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 reduced strategic significance, deteriorated debt management, or increased exposure to 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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