

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub> to Taizhou Jiaojiang Urban Development Investment Group Co., Ltd., with stable outlook**

Hong Kong, 24 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to Taizhou Jiaojiang Urban Development Investment Group Co., Ltd. (“JUDI” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of Jiaojiang District Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of local government and the Company’s characteristics. Our assessment of Jiaojiang District Government’s capacity to provide support reflects that Jiaojiang District has a developed local private economy with good economic fundamentals and fiscal 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 and dominant position in water utility provision in Jiaojiang District; (2) strong payment support from Jiaojiang District Government; and (3) good access to funding. However, the rating is constrained by the Company’s (1) high capital expenditure pressure from construction projects; (2) moderate debt growth driven by its construction projects in the pipeline; and (3) relatively weak asset liquidity.

### **Corporate Profile**

Founded in 2011, JUDI serves as the core operating entity in Jiaojiang District to undertake government investment implementation and major construction projects, as well as the main body for urban infrastructure operations. The Company’s main businesses are sales of water, municipal construction, green conservation, testing, agent construction, foreign trade, sewage treatment, parking, amusement park and other ancillary businesses, including property leasing, sales of resettlement housing, sales of food for poverty alleviation.

The Company is a state-owned enterprise wholly owned by the State-owned Assets Supervision and Administration Commission of Jiaojiang District (“Jiaojiang District SASAC”).

### **Rating Rationale**

#### **Credit Strengths**

**Strategic position in the urban development of Jiaojiang District.** As a key Local Infrastructure Investment and Financing Companies (“LIIFC”) with the second largest total assets in Jiaojiang District, JUDI plays an important role in the urban development as well as the social and economic advancement of the district. Given its key role, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Important role in infrastructure construction in Jiaojiang District.** As a state-owned assets operating entity, the Company has played an important role in the development of Jiaojiang

District, especially in infrastructure construction, resettlement housing construction and land consolidation. These are fundamental to the social and economic development of Jiaojiang District. We expect that the public service businesses of the Company will be sustainable given the large projects in its pipeline.

**Dominant position in water utility provision in Jiaojiang District.** JUDI is also engaged in the provision of utility services in Jiaojiang District, mainly including water sales, grid installation, sewage treatment, and recycled water sales. We believe the Company's regional position in the water services business will remain strong, given its strong functional positioning and resource utilization in Jiaojiang District.

**Strong payment support from Jiaojiang District Government.** Since its establishment, the local government has provided ongoing payment support to the Company. The strong and continuous support from the local government has greatly increased the Company's business stability and competitiveness, thereby making a big contribution to its future growth. Given JUDI's important role in Jiaojiang District, we expect the Company will continue to receive support from the Jiaojiang District Government in the future.

**Good access to funding.** The Company has good access to funding through various financing channels, such as bank loans and debt securities, mitigating its liquidity risks. Over the years, it has cultivated good relationships with a number of reputable commercial banks and financial institutions, providing a solid foundation for the Company to obtain funds.

#### **Credit Challenges**

**Moderate debt growth driven by its construction projects in the pipeline.** The Company's debt scale has grown moderately over the past 3 years, mainly due to the continuous financing of construction projects and land consolidation. The total debt of the Company increased from RMB9.7 billion in end-2019 to RMB15.7 billion in mid-2022, with a total capitalization ratio of 56.7%. Given the Company's large capital expenditure pressure, we expect the Company to maintain moderate debt growth for the next 12-18 months.

**Relatively weak asset liquidity.** The Company's asset liquidity is relatively weak. Its assets mainly consist of inventories and other non-current assets, which are development costs of land consolidation, resettlement housing, and agent construction projects. The relatively weak asset liquidity may undermine its financing flexibility.

#### **Rating Outlook**

The stable outlook on JUDI's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its vital role in infrastructure construction and public utility provision in Jiaojiang District.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's ability to support strengthens; or (2) changes in the Company's characteristics enhance local government's willingness to support, such as increased government payments or improved debt management.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in the Company's characteristics reduce local government's willingness to support, such as reduced strategic significance 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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