

CCXAP assigns first time long-term credit rating of BBB_g- to Jinghe New City Development and Construction (Group) Co, Ltd of Xixian New Area, Shaanxi Province, with stable outlook.

Hong Kong, 5 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Jinghe New City Development and Construction (Group) Co, Ltd of Xixian New Area, Shaanxi Province (“JDCG” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of JDCG reflects Xixian New Area Government’s very strong capacity to provide support and its relatively high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Xixian New Area Government’s capacity to support reflects Xixian New Area’s status as one of 19 state-level new areas with sound fundamentals and good fiscal stability, but constrained by its high debt burden.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) essential role as the primary urban developer and operator of Jinghe New City; (2) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) relatively high debt leverage owing to debt-driven business expansion; and (3) high level of external guarantees exerting contingent risk.

Corporate Profile

Founded in 2011, JDCG is one of the key local infrastructure investment and financing companies (“LIIFCs”) of Xixian New Area. It has developed entrusted construction and franchising businesses to upgrade industrial facilities, incubate and operate high-quality industrial parks. JDCG focuses on land consolidation and development, social housing construction, infrastructure construction, industrial park construction and operation, as well as commodity sales in Jinghe New City. As of 31 December 2022, the Company was controlled by the Development and Construction Management Committee of Xixian New Area of Shaanxi Province, which indirectly held 48.5% of the Company’s shares through Shaanxi Xixian New Area Development Group Co., Ltd. Also, the Management Committee of Jinhe New City in Xixian New Area of Shaanxi Province (“Jinghe New City Management Committee”) is the second largest shareholder, which directly held 45.1% of the Company’s shares.

Rating Rationale

Credit Strengths

Essential role as the primary urban developer and operator of the Jinghe New City. JDCG is the primary development, construction, and operation company in Jinghe New City, focusing on land consolidation, social housing, and infrastructure construction projects in Jinghe New City. Considering the JDCG’s dominant position in undertaking public-policy projects in Jinghe

New City, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

Solid track record of receiving government payments. JDCG serves an important public policy function and is strategically important to local development. The Company has received ongoing support from the Xixian New Area Government and the Jinghe New City Management Committee, in terms of capital injections, project repayments, and operating subsidies. We expect JDCG to receive ongoing government support mainly in the form of cash payments, equity injections, as well as operating subsidies to maintain the further construction of the government-mandated public projects and investments.

Credit Challenges

Medium exposure to commercial activities. Apart from public-policy projects, JDCG is engaged in commercial activities mainly in and industrial park construction. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than infrastructure construction business under agency construction model. The Company's exposure to commercial businesses is considered to be medium, accounting for less than 30% of its total assets as of 31 December 2022, based on our estimation.

Relatively high debt leverage owing to debt-driven business expansion. JDCG reported fast debt growth owing to its debt-driven business expansion over the past few years. As of 31 December 2022, the Company's total debt increased to RMB24.3 billion from RMB15.5 billion at end-2019. The continuous investment in these projects may rely on external financing, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

High level of external guarantees exerting contingent risk. JDCG's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 31 December 2022, the Company had outstanding external guarantees of RMB8.4 billion, accounting for around 69.6% of its net assets. It is mainly the cross-guarantee with other state-owned enterprises within the 5 regions of Xixian New Area which exposes the Company to substantial contingent liabilities.

Rating Outlook

The stable outlook on JDCG's rating reflects our expectation that Xixian New Area Government's capacity to provide support will remain stable, and the Company will maintain its important strategic position in the development of Jinghe New City.

What could upgrade the rating?

The rating could be upgraded if (1) Xixian New Area Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management and reduced exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) Xixian New Area Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional 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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