

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Jiangsu Hairun City Development Group Co., with stable outlook.**

Hong Kong, 10 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub> to Jiangsu Hairun City Development Group Co. (“JHCD” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of JHCD reflects Haimen District Government’s strong capacity to provide support, and very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the Haimen District Government’s capacity to provide support reflects Haimen District’s status as the third largest district by gross regional product (“GRP”) in Nantong City for years. It has good economic fundamentals and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role as a comprehensive urban operator in Haimen District with sufficient project reserves; (2) track record of receiving government payments; and (3) good access to diversified funding. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) high level of external guarantees.

### **Corporate Profile**

Founded in 2002, JHCD is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Haimen District. It is positioned as a comprehensive urban operator, undertaking projects in infrastructure construction, land consolidation, affordable housing and providing water supply and sewage treatment services in Haimen District. The Company also develops other commercial activities such as property development, on-lending service, commodity sales, and leasing. As of 31 December 2022, the Company was wholly owned by the State-owned Assets Supervision and Administration Office of Haimen District Government of Nantong City (“Haimen SASAO”).

### **Rating Rationale**

#### **Credit Strengths**

**Essential role as a comprehensive urban operator in Haimen District with sufficient project reserves.** JHCD plays an essential role in construction of urban infrastructure and operation of public utilities in Haimen District, responsible for land consolidation, affordable housing construction, infrastructure construction, water supply and sewage treatment in Haimen District. Considering its large project reserves and public-related assets, the possibility of JHCD being replaced is low and the Company is expected to maintain its importance for Haimen District Government.

**Track record of receiving government payments.** JHCD has a track record of receiving ongoing support from the Haimen District Government, including capital injections, equity

transfer, project payments, and operating subsidies. The Company received project payments for the completed land consolidation, affordable housing and infrastructure construction projects and stable operating subsidies for public activities and infrastructure construction from 2020 to 2022. We expect JHCD to receive ongoing support from the government given its strong position in urban development of Haimen District.

**Good access to diversified funding.** JHCD has good access to various sources of funding, including banks and bond market. JHCD has access to the onshore debt capital market and issued different financial products in the onshore bond market such as SCPs, corporate bonds, MTNs and PPNs. In addition, JHCD had manageable exposure to nonstandard financing, accounting for less than 10% as of end-2022.

### Credit Challenges

**Medium exposure to commercial activities.** JHCD engaged in diversified commercial activities including on-lending service, property development, trading, property leasing and self-operated construction. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction businesses. The Company's exposure to commercial activities is considered medium, which accounted for less than 30% of its total assets, based on our assessment.

**High debt leverage and moderate asset liquidity.** JHCD shows a rising debt burden owing to its expansion in the construction of public-policy projects over the past few years. The Company's total capitalization ratio, as measured by total debt to total capital, remained at a high level of 55.3% as of end-2022. Besides, its asset liquidity was moderate and the Company pledged a number of assets for loans.

**High level of external guarantees.** The credit profile of JHCD is constrained by its large number of external guarantees, which could potentially increase its repayment obligations. External guarantees of RMB296 million were provided to a private-owned enterprise that is listed as a dishonest judgment debtor, which exposes the Company to higher contingent risks. Nevertheless, the Company has received full counter-guarantees provided by this private-owned enterprise to cover the external guarantees provided by the Company, and the risk of expected compensation is relatively controllable.

### Rating Outlook

The stable outlook on JHCD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Haimen District over the next 12-18 months.

### What could upgrade the rating?

The rating could be upgraded if (1) the Haimen District Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management or material reduction in the exposure to contingent risks.

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

The rating could be downgraded if (1) the Haimen District 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 importance or higher exposure to risky 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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