

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>+ to Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd., with stable outlook.**

Hong Kong, 18 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 Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd. (“JMTI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of JMTI reflects Jimo District Government’s (1) 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 Jimo District Government’s capacity to support reflects Jimo District’s status as one of the top three largest districts by gross regional product in Qingdao City for years, with growing economic and fiscal strengths.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) key role in the infrastructure construction and provision of public utility services in Jimo District; (2) solid track record of receiving government support; and (3) good access to different financing channels with relatively low financing costs. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt burden with large investment needs; and (3) relatively high contingent risk arising from external guarantees.

### **Corporate Profile**

Established in June 2007, JMTI is a key local infrastructure investment and financing company (“LIIFC”) in Jimo District, Qingdao City, with a focus on the provision of public utility services and infrastructure construction. The Company is also engaged in commercial activities such as self-operated project construction, real estate development, as well as leasing. As of 31 March 2023, the Company has been wholly owned and controlled by the Qingdao Jimo State-owned Assets Operation Service Centre, which is under the direct administration of the Jimo District Government.

### **Rating Rationale**

#### **Credit Strengths**

**Key role in the infrastructure construction and provision of public utility services in Jimo District.** JMTI is the core LIIFC in Jimo District, primarily conducting infrastructure construction and providing utility services in Jimo District. The Company is usually designated by the local government to carry out the construction of infrastructure projects under the agent construction model. Since its establishment, the Company has played an essential role in the implementation of infrastructure construction and urban development policies. We also believe JMTI’s regional position in the public services will remain strong, given its strong functional positioning to promote the regional development and improve the living quality in Jimo District.

**Solid track record of receiving government support.** JMTI has a solid track record of receiving government support mainly in equity transfer, capital injection, and operating subsidies. As one of the key LIIFCs in the area, Jimo District Government continuously increased the Company's capital base through equity transfer and operating asset injections over the past years. Moreover, the Company received operating subsidies from local government amounted of RMB268.8 million, RMB498.5 million, and RMB760.2 million in 2020, 2021, and 2022, respectively.

**Good access to different financing channels with relatively low financing costs.** JMTI demonstrates good access to different financing channels, of which bond issuances and bank loans are the majority of the funding resources. The Company has secured low-cost and stable funding and maintained a relatively balanced debt structure. As of 31 March 2023, bonds accounted for approximately 66% of its total debt, followed by bank loans (around 25%), and non-standard financing products (less than 7%). Meanwhile, the Company's weighted average financing cost was at a relatively low level of less than 5%.

#### **Credit Challenges**

**Medium exposure to commercial activities.** JMTI is also engaged in commercial activities such as self-operated project construction, leasing, and real estate development businesses. Although the Company's assets from commercial activities accounted for about 30% of its total assets, we consider the business risk in these commercial activities to be manageable. However, given the large amount of construction of self-operating projects and property projects, we expect the Company will increase its commercial activities exposure in the future.

**Increasing debt burden with large investment needs.** JMTI has had rapid debt growth over the past three years due to continuous investment in infrastructure construction and commercial activities. As of 31 March 2023, the Company's total debt increased to RMB19.2 billion from RMB12.7 billion at end-2020; while its capitalization ratio, calculated as a ratio of total debt to total capital, also grew to 52.0% from 41.9% at end-2020. Considering the Company's relatively large capital expenditure pressure and the Company will still rely on external financing to support the construction of commercial projects, we expect the Company's debt burden will continue to grow for the next 12-18 months.

**Relatively high contingent risk arising from external guarantees.** As of 31 March 2023, the total amount of external guarantees was approximately RMB5.2 billion, representing 29.3% of net assets. The targets of the guarantees are mainly for state-owned enterprises in Jimo District but none guarantees have counter-guarantee measures in place, which may exert certain contingent risks on JMTI.

#### **Rating Outlook**

The stable outlook on JMTI's rating reflects our expectation that the Jimo District Government's capacity to provide support will be stable, and the Company's characteristics such as its essential role in infrastructure construction and provision of public utility services will remain unchanged over the next 12 to 18 months.



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

The rating could be upgraded if (1) Jimo District 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 materially reduced exposure to risky commercial activities and improved debt management.

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

The rating could be downgraded if (1) Jimo District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as weakened market position, deteriorated assess to fundings, or material decreased government support.

### **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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