

CCXAP assigns first time long-term credit rating of BBB_g+ to Qingdao Jimo District Urban Development Investment Co., Ltd., with stable outlook.

Hong Kong, 8 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Qingdao Jimo District Urban Development Investment Co., Ltd. (“JMUI” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of JMUI 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) strategic importance in affordable housing and infrastructure construction in Jimo District; (2) solid track record of receiving government support; and (3) good access to diversified fundings. However, the Company’s rating is constrained by its (1) medium and increasing exposure to commercial activities; (2) increasing debt burden to support the regional development; and (3) contingent risks associated with large amounts of external guarantees.

Corporate Profile

Established in September 2003, JMUI is a key local infrastructure investment and financing company (“LIIFC”) in Jimo District, Qingdao City. The Company is designated by the government for infrastructure construction and affordable housing projects. It also undertakes diversified commercial activities, such as property development, industrial parks development, property renting, hot spring water supply, commodity sales, as well as the provision of external guarantees. As of 31 March 2023, the Company has been wholly owned 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

Strategic importance in affordable housing and infrastructure construction in Jimo District. JMUI is one of the core LIIFCs in Jimo District. It is the main entity delegated by Jimo District Government to carry out affordable housing and infrastructure construction projects. The Company has undertaken a number of infrastructure construction projects including public supporting facilities and landscaping works. We believe JMUI maintains its responsibility in important projects’ investment and construction in the region, although the business model is changing from agent construction to self-operate.

Solid track record of receiving government support. JMUI has a good track record of receiving support from the local government in the form of project payments, asset injections, and operating subsidies to support its investments and the operation of its businesses. In 2021,



the local government injected assets with a total of RMB4.5 billion into the Company. Moreover, the Company's project constructions are usually supported by the government special funds. From 2020 to 2023Q1, the local government provided operating subsidies of RMB563.6 million to the Company.

Good access to diversified funding. JMUI has good access to diversified funding such as bank loans, domestic and offshore bond financing. The Company maintains long-term close relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks. The Company actively participates in debt capital markets and shows relatively high acceptance. From January 2022 to June 2023, the Company issued several tranches of domestic bonds and 2 tranches of offshore bonds. As of 31 March 2023, the Company had a manageable exposure to non-standard financing, which accounted for less than 10% of total debt.

Credit Challenges

Medium and increasing exposure to commercial activities. JMUI is also engaged in commercial activities such as property development, industrial parks development, property renting, hot spring water supply, commodity sales, as well as provision of external guarantees. Although the Company's commercial assets accounted for approximately 30% of its total assets, we consider the business risk in these commercial activities to be manageable. However, considering the large capital expenditure needs of its commercial projects, we expect that the Company's debt level will continue to grow to over the next 12-18 months.

Increasing debt burden with large investment needs. JMUI's total debt increased to RMB32.5 billion as of 31 March 2023 from RMB20.9 billion as of end-2020, as a result of large demands for the construction projects. Meanwhile, the Company has relatively high debt leverage and its total capitalization ratio maintained at around 60% over the past three years. The Company's short-term debt was RMB9.8 billion, accounting for 30.2% of total debt, indicating relatively high refinancing needs. We estimate the Company would continue to rely on external financing such as bank loans and bonds issuance to support its further development, while its total capitalization ratio would remain relatively high over the next 12-18 months.

Contingent risks associated with large amounts of external guarantees. As of 31 March 2023, the Company had outstanding external guarantees of RMB8.9 billion, representing 47.6% of its net assets. Most of them were provided to local state-owned enterprises. The Company's contingent liabilities are subject to regional risks due to the mutual guarantee situation in Jimo District. Moreover, the Company takes part in the provision of guarantee businesses which increase its contingent risk exposure to private-owned enterprises.

Rating Outlook

The stable outlook on JMUI'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 strategic importance in the affordable housing and infrastructure construction 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 reduced regional significance, deteriorated assess to fundings, or materially increased 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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