

Credit Opinion

31 March 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Jiaxian State-owned Capital Operation Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jiaxian State-owned Capital Operation Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiaxian State-owned Capital Operation Group Co., Ltd. ("JXSC" or the "Company") reflects Jia County Government's (1) relatively 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 Jia County Government's capacity to support reflects Jia County's increasing economic strength, but constrained by its relatively weak fiscal balance.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) significant role in local infrastructure construction and primary land development; and (2) solid track record of receiving government supports.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) limited access to funding with high reliance on bank loans; and (3) medium exposure to contingent liability risk, with a high recovery risk from receivables.

The stable outlook on JXSC's rating reflects our expectation that the Jia County Government's capacity to provide support will be stable, and the Company's significant role in local infrastructure construction of Jia County will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Significant role in local infrastructure construction and primary land development
- Solid track record of receiving government supports
- Medium exposure to commercial activities
- Reasonable debt leverage with high reliance on bank loans
- Medium exposure to contingent liability risk, with a high recovery risk from receivables

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jia County 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 improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Jia County 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 or materially increased exposure to risky commercial activities or deteriorated debt management.

Key Indicators

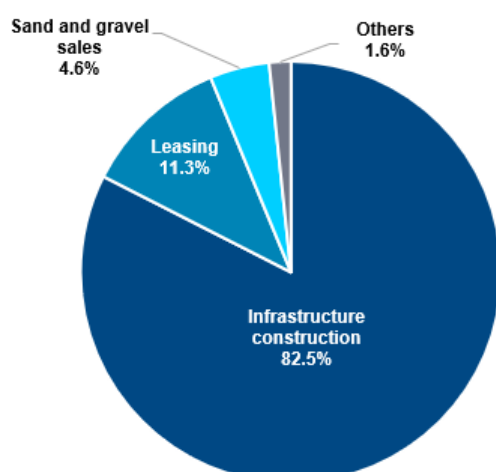
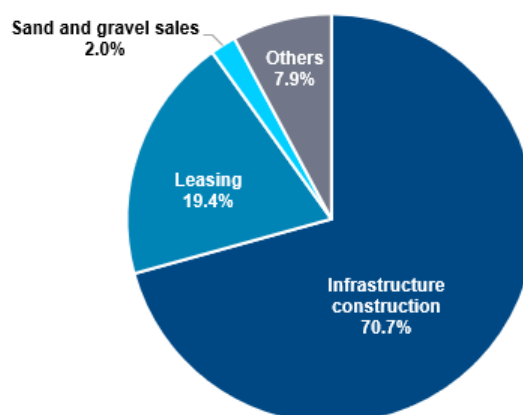
	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	14.9	21.3	20.4	21.1
Total Equity (RMB billion)	10.2	15.8	15.9	16.3
Total Revenue (RMB billion)	0.9	1.0	0.9	0.4
Total Debt/Total Capital (%)	18.9	15.4	13.7	12.0

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2015, JXSC is one of the three most important infrastructure investment and financing companies ("LIIFCs") in Jia County after the consolidation of local state-owned entities. In 2022, the local government transferred 100% of its shareholding in Jiaxian Development Investment Group Co., Ltd. ("JXDI") to JXSC. The Company then became the largest LIIFC in terms of total assets in Jia County, mainly responsible for infrastructure construction and primary land development in Jia County. JXSC also engages in commercial activities, such as self-owned projects construction and operation, sand and gravel sales, and leasing. As of 30 September 2024, the Company was wholly owned by the State-owned Assets Service Center of Jia County, and the Jia County Government was the ultimate controller of JXSC.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Jia County Government has a relatively strong capacity to provide support, reflecting Jia County's increasing economic strength, but constrained by its relatively weak fiscal balance.

Henan Province is a leading economic province and is recognized as one of the most developed provinces in China. It is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's GRP ranked 6th among all provinces in China in 2024 with a GRP of RMB6.4 trillion and a growth rate of 5.1% year-on-year ("YoY").

Pingdingshan City is located in the central of Henan Province, which is an important energy and industrial base in the Central Plains Economic Region. After years of development, Pingdingshan City has established five pillar industries, including energy, chemical, equipment manufacturing, metallurgical building materials, and textiles and food industries. Over the past years, Pingdingshan City's has achieved sustained economic growth. In 2024, Pingdingshan City achieved a GRP of RMB283.2 billion, representing a YoY increase of 4.0%. Pingdingshan Municipal Government's general budgetary revenue was recorded at RMB25.4 billion in 2024. However, the average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was maintained at a moderate level of over 50 % over the past three years. As of end-2024, the outstanding debt of Pingdingshan Municipal Government increased to RMB94.7 billion, accounting for 33.4% of the GRP.

Exhibit 3. Key economic and fiscal indicators of Pingdingshan City

	2022FY	2023FY	2024FY
GRP (RMB billion)	283.9	272.0	283.2
GRP Growth (%)	4.1	3.2	4.0
General Budgetary Revenue (RMB billion)	22.6	23.7	22.5
General Budgetary Expenditure (RMB billion)	41.6	42.5	45.3
Local Government Debt (RMB billion)	58.1	75.4	94.7

Source: Pingdingshan Municipal Government, CCXAP research

Jia County is located in the west-central part of Henan Province, which is the county under direct financial control of Henan Province. It has formed two pillar industries, namely equipment manufacturing and medicine. Jia County is also a major agricultural county, with a steady development of agricultural production. Jia County has demonstrated ongoing economic growth over the past three years. Jia County's GRP increased by 4.1% YoY to RMB21.6 billion in 2023. Meanwhile, Jia County Government's general budgetary revenue increased to RMB1.5 billion in 2024 from RMB1.3 billion in 2022. However, Jia County has maintained a relatively weak fiscal balance with an average fiscal balance ratio around 37.0% over the past three years. Jia County highly relied on transfer income from higher tier government. As of 31 December 2023, the outstanding debt of Jia County Government was RMB4.8 billion, accounting for 22.3% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Jia County

	2021FY	2023FY	2024FY
GRP (RMB billion)	23.3	21.6	-
GRP Growth (%)	4.1	4.1	4.5
General Budgetary Revenue (RMB billion)	1.3	1.5	1.5
General Budgetary Expenditure (RMB billion)	3.9	3.2	-
Local Government Debt (RMB billion)	3.8	4.8	-

Source: Jia County Government, CCXAP research

Government's Willingness to Provide Support

Significant role in local infrastructure construction and primary land development

As one of the three most important LIIFCs in Jia County, JXSC has a significant role in local infrastructure construction and primary land development. The other two major LIIFCs are Jiaxian Kaifa Investment Group Co., Ltd. ("JXKF") and Jiaxian Urban Construction Investment Co., Ltd. ("JUTC"). JXKF is mainly responsible for the industrial park development, infrastructure and supporting construction of industrial parks in the Economic and Technological Development Zone of Jia County, while JUTC is mainly responsible for old infrastructure construction in Jia County. Considering its strategic significance to the development of Jia County, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

The Company mainly undertakes infrastructure construction through agency construction model and self-construction model. Under agency construction model, JXSC and its subsidiary JXDI sign entrusted development agreement with JUTC or other local state-owned enterprises, and would receive the construction costs plus certain markup according to the construction progress at the end of year. The Company is in charge of project financing and construction. Since its establishment, the Company had completed various key projects, including road construction, hospital, healthcare, and comprehensive improvement of water system. These projects are of great significance to the improvement of urban infrastructure, enhancing the social welfare of the citizens. As of 31 December 2023, there were 10 projects under construction under agency construction model, with a total investment amount of RMB934.7 million and an uninvested amount of RMB89.1 million. At the same time, the Company had 2 projects under planning, with an estimated total investment of RMB126.0 million.

The Company also has some projects under self-construction model, including resettlement housing, utility tunnel, as well as rural drinking water safety project. The Company would achieve fund balancing through operation income, such as water supply and sewerage income. These projects are closely linked to the welfare of the local residents. As of 30 September 2023, the Company had 3 projects under construction, with a total investment of RMB2.4 billion and an outstanding investment of RMB1.8 billion. In addition, the Company had 2

projects under planning at end-2024, mainly the land consolidation and grain storage projects, with a total investment of RMB680.0 million, exerting relatively large capital expenditure pressure to the Company. However, the Company's grain storage project would receive special bond funds, owing to its public welfare nature, which could partially relieve the Company's capital expenditure pressure.

JXSC also conducts primary land development through its subsidiary JXDI. JXDI signs land development agreement with Jia County Government annually and is responsible for fund raising activities for land development business in Jia County. The Company did not undertake any land development and consolidation projects in 2023 and 2024, and hence, the Company did not recognize any revenue from this segment for the period 2023-2024. However, this business is subject to local land market demand and government land planning, exerting uncertainty in its future revenue.

Overall, JXSC's infrastructure construction projects are essential to both the livelihood of local residents and the development blueprint of the local government. Sufficient project reserves also ensure the sustainability of Company's development, and therefore we believe that JXSC will not be easily replaced by other state-owned enterprises in the foreseeable future.

Medium exposure to commercial activities

JXSC participates in commercial activities such as self-owned projects construction and operation, sand and gravel sales, and leasing. We consider that JXSC maintained a medium exposure to commercial activities, and the vast majority is the sand and gravel mining right transferred from the local government, accounting for 28.4% of its total assets.

JXSC conducts self-operated projects construction to promote local economic and industrial development. As of 30 September 2023, there were 3 projects under construction, including standard factory, office building, and steel market, with a total investment amount of RMB630.0 million and an uninvested amount of RMB331.0 million. The Company is expected to achieve fund balancing through leasing and sales while the investment recovery cycle of these self-operated constructions is long subject to operating uncertainties.

The Company participates in sand and gravel sales business through its subsidiary. JXSC is responsible for the mining and sales of sand and gravel in the river from Zhaozhai Village to Linhe Village in Xuedian Town, with a total permitted mining volume of 1.2 million cubic meters. In 2023, due to the commencement of sand and gravel mining for the North Ruhe River project, the revenue from this business increased notably from RMB36.8 million in 2022 to RMB100.4 million. However, there are some uncertainties in the future revenue of the Company's sand and gravel mining business, as the sales volume and price are highly affected by the market conditions. The revenue from sand and gravel sales business decreased to RMB21.7 million in 2024.

Solid track record of receiving government supports

JXSC has a solid track record of receiving support from the local government in the form of capital injection, asset injections, and financial subsidies to support its investments and the operation of its businesses. For example, in 2022, the local government injected assets and capital into JXSC, mainly including sand and gravel resources, increasing capital reserve of the Company by RMB5.4 billion. Apart from that, the local government transferred 100% share of JXDI to the Company in 2022, which enlarged JXSC's business scope and further strengthened its capital base. The Company also received capital injection from 2023 to 2024Q3, increasing the paid-in capital by RMB491.0 million. In addition, from 2022 to 2024Q3, the local government provided subsidies of RMB177.9 million to the Company to support its operation and development. The local government

also regularly makes project payments to the Company for its public policy projects. Considering its significant role in local infrastructure construction and primary land development of Jia County, we expect the local government will continue to provide support to the Company.

Reasonable debt leverage, but with high reliance on bank loans

The Company's total debt has been decreasing over the past three years, owing to the repayment of bonds. As of 30 September 2024, the Company's total debt decreased to RMB2.2 billion from RMB2.9 billion as of end-2022. Its capitalization ratio, as measured by total debt to total capital, maintained at a reasonable level of around 12.0%. The Company also has a reasonable debt structure. As of 30 September 2024, the Company's short-term debt amounted to RMB467.8 million, accounting for around 21.0% of the total debt. However, its cash to short-term debt ratio was around 0.2x, indicating that its cash balance could not fully cover its short-term debt. Considering the Company's large capital expenditure needs, we expect the debt burden of the Company would increase over the next 12 to 18 months.

JXSC has a fair access to funding channels such as bank loans and onshore bonds. Bank loans contribute most of the total debt, which accounted for more than 80.0% as of 30 September 2024. At end-2024, the Company had total bank facilities of RMB2.1 billion and an unutilized portion of RMB150.0 million. The Company also actively strengthens cooperation with large state-owned commercial banks to improve its financing channels. In addition, the Company has a track record for fund-raising activities in capital market. In 2020, the Company's subsidiary JXDI issues one tranche of domestic bonds, raising RMB670.0 million. We expect the Company to expand its financing channels to fulfil its future capital expenditure needs for infrastructure projects.

Medium exposure to contingent liability risk, with a high recovery risk on receivables

The Company bears medium exposure to contingent liability risk, which could potentially increase its repayment obligations. As of 31 December 2024, the Company's external guarantees amounted to around RMB769.6 million, accounting for around 5.5% of its net assets, most of which were provided to local state-owned enterprises. The Company also provided external guarantees of around RMB64.4 million to some private-owned enterprises, accounting for around 8.4% of the total external guarantees. Some of the guarantees are listed as judgement debtors for multiple times, while some of the guarantees had interest arrears and overdue payments. JXSC's subsidiary JXDI has also been listed as a judgement debtor for several times due to the external guarantees provided to JXUC. The external guarantees provided to JXUC was RMB174.8 million, accounting for around 22.7% of its total external guarantee amount, which may expose the Company to higher contingent liabilities risk.

In addition, there is a risk of recovery for its receivable accounts. The Company's receivables contain infrastructure project payments and current accounts receivable from JXUC, the People's Hospital of Jia County, and Maternal and Child Health Hospital of Jia County, which were listed as judgement debtors for multiple times, indicating certain liquidity issue of these debtors. The Company still had a total amount of receivables of around RMB1.2 billion from these three counterparties as of 31 December 2024.

ESG Considerations

JXSC bears environmental risks through its infrastructure construction and land development projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

JXSC bears social risks as it implements public policy initiatives by building public infrastructure in Jia County. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

JXSC's governance considerations are also material as the Company is subject to oversight by Jia County Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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