Credit Opinion

6 March 2023

Ratings	
Senior Unsecured Debt Rating	BBB_g
Long-Term Credit Rating	BBB_g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Jiangsu Haihong Investment Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g to Jiangsu Haihong Investment Holding Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Jiangsu Haihong Investment Holding Group Co., Ltd ("JHIH" or the "Company") reflects (1) the Haimen District Government's relatively strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of 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 sound fundamentals and good fiscal stability.

The rating also reflects the willingness of the local government to provide support, which is based on the Company's (1) position as the core entity in the construction and operation of affordable housing in Haimen District; (2) solid track record of receiving government payments from affordable housing and infrastructure construction; (3) possession of good leasing assets; and (4) good access to diversified funding.

However, the Company's rating is constrained by (1) increasing exposure to commercial activities such as investment funds and commercial properties; (2) fast-growing debt levels driven by development pipelines; and (3) high level of external guarantees.

The stable outlook on JHIH'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.

Rating Drivers

- Clear and strong strategic position in affordable housing construction in Haimen District
- Solid track record of receiving government payments
- Good access to diversified funding
- Increasing exposure to commercial activities
- Fast-growing debt levels driven by large development pipelines
- High level of external guarantees

Rating Sensitivities

What could upgrade the rating?

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

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 significance or weakened access to funding.

Key Indicators

	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	43.5	43.9	49.3	57.0
Total Equity (RMB billion)	16.0	16.7	17.6	18.0
Total Revenue (RMB billion)	2.6	2.6	2.8	2.0
Total Debt/Total Capital (%)	58.6	58.3	61.6	66.8

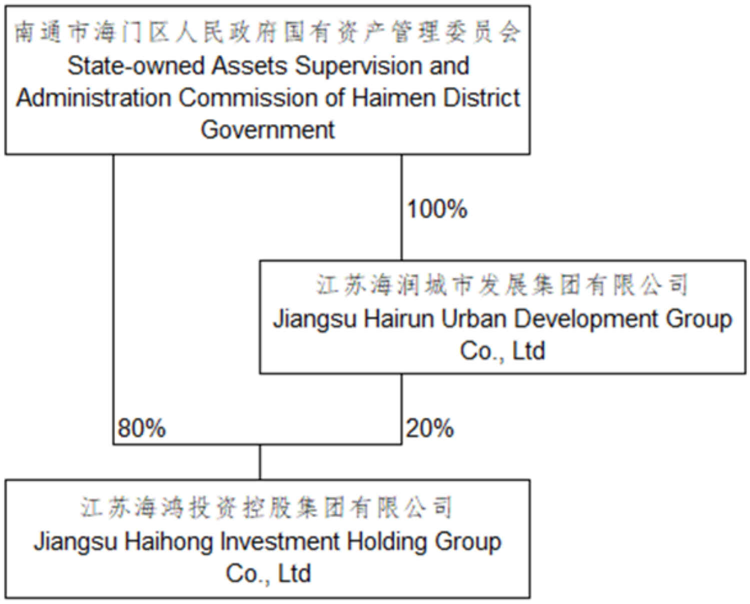
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 2016, JHIH is one of the key local infrastructure investment and financing companies ("LIIFCs") in Haimen District, and occupies a dominant position in Haimen District's affordable housing and infrastructure construction. JHIH is also engaged in diversified commercial activities such as trading business, leasing business and property management services. As of 30 September 2022, the Company was controlled by the State-owned Assets Supervision and Administration Commission of Haimen District Government ("Haimen SASAC"), which directly held 80% of the Company's share and indirectly held 20% of the share through Jiangsu Hairun Urban Development Group Co., Ltd ("JHUD"). The Company's paid-in capital was RMB3.0 billion as of the same date.

Exhibit 1. Shareholding and organization chart as of 30 September 2022



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2021

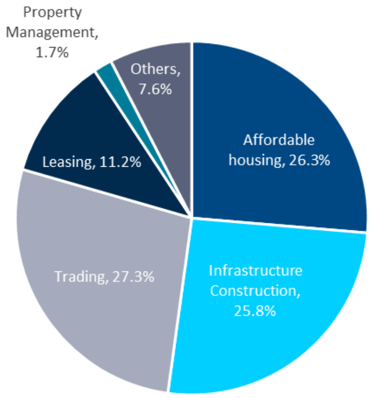
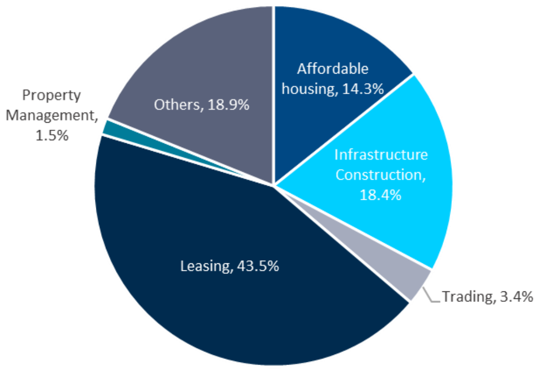


Exhibit 3. Gross profit structure in 2021



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Haimen District Government has strong capacity to provide support for the Company, given its status as the third largest district by GRP in Nantong City for years. Haimen District also achieved the fastest GDP growth among districts in Nantong City in 2021.

Nantong City is a prefecture-level city administrated under Jiangsu Province and is located in the southern part of Jiangsu Province. It is an economic center and a modern port city on the north bank of the Yangtze River Delta. On the back of its port resources and location advantages, Nantong City has developed six core industrial sectors, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. Nantong's GRP reached over RMB1.1 trillion in 2021, ranking fourth in Jiangsu Province. In 2022, Nantong City recorded a GRP of RMB1.1 trillion, a year on year ("YoY") increase of 2.1%. With the continuous development of the regional economy, Nantong reported a general public budget revenue of RMB71.0 billion in 2021, a YoY increase of 11.1%. Taxes made up a large proportion of its revenue, at 80.7%. Due to the active local land market, the government fund revenue increased by 8.1% YoY to RMB144.2 billion in 2021. However, recent fluctuations in the real estate market may affect its fiscal stability as government funds accounted for over 60% of its fiscal revenue, which mainly came from land sales. The high linkage between its fiscal revenue and the property market would increase fiscal pressure on the government when the property market underperforms.

Exhibit 4. Key Economic and Fiscal Indicators of Nantong City

	2019FY	2020FY	2021FY
GRP (RMB billion)	938.3	1,003.6	1,102.7
GRP Growth (%)	6.2	4.7	8.9
General Budgetary Revenue (RMB billion)	61.9	63.9	71.0
General Budgetary Expenditure (RMB billion)	97.3	108.1	112.2
Local Government Debt (RMB billion)	163.2	168.4	186.3

Source: Statistics Bureau of Nantong City, CCXAP research

Haimen District is a district under the jurisdiction of Nantong City, located in the southeast of Jiangsu Province. The total area of the Haimen District is 1,148.8 square kilometers. Haimen District has developed a few core industries, including construction, home textile, intelligent equipment manufacturing, agriculture, and real estate. Haimen's GRP reached over RMB156.9 billion in 2021, ranking third in Nantong City. Despite the impact of the COVID-19 pandemic, Haimen District was still able to maintain a good economic growth rate of 9.4% in 2021, which was above the national average growth rate, ranking first in Nantong City. In 2022, Haimen District recorded a GRP of RMB162.1 billion, a YoY increase of 2.6%. Supported by the sustained development of the regional economy, Haimen's fiscal resources continue to increase. It reported a general public budget revenue of RMB7.9 billion in 2021, a YoY increase of 6.5%. Taxes represented a large proportion of its revenue, accounting for 82.2% and is a relatively stable source of revenue. As of 31 December 2021, Haimen District Government's outstanding debt amounted to RMB15.3 billion, accounting for about 9.3% of GRP. However, Haimen's fiscal balance rate remained relatively weak, recorded at 59.0% in 2021.

Exhibit 5. Key Economic and Fiscal Indicators of Haimen District

	2019FY	2020FY	2021FY
GRP (RMB billion)	135.2	144.3	156.9
GRP Growth (%)	6.4	5.5	9.4
General Budgetary Revenue (RMB billion)	7.1	7.4	7.9
General Budgetary Expenditure (RMB billion)	11.3	13.3	13.4
Local Government Debt (RMB billion)	14.9	15.1	15.3

Source: Statistics Bureau of Haimen District, CCXAP research

Government's Willingness to Provide Support

Clear and strong strategic position in Haimen District

The Haimen District government consolidated its state-owned assets in 2017 to form three major LIIFCs, namely, JHUD, Jiangsu Haisheng Holding Group Co., Ltd ("JHHG"), and JHIH. JHUD is positioned as a comprehensive operations service provider of urban infrastructure and public utilities in Haimen District. JHHG is mainly responsible for the investment, financing, construction, and management of the transportation infrastructure projects in Haimen District. JHIH is positioned as the core and the sole entity responsible for affordable housing construction in Haimen District. JHIH has also undertaken some infrastructure construction projects in Haimen

District, including roads, bridges, and sewage pipeline constructions in Linjiang New Area and Dieshiqiao Textile Area. JHIH has a clear functional positioning among state-owned enterprises in Haimen District and its total assets ranked second among LIIFCs in Haimen District. As of 30 September 2022, the Company has invested around RMB18.8 billion in affordable housing and infrastructure construction. We believe that JHIH's strategic role in Haimen District's economic development and public welfare undertakings is irreplaceable in the short-to-medium term.

Dominant position in local affordable housing and infrastructure construction and operations

JHIH has undertaken a number of affordable housing projects over the past years. The Company has signed an Affordable Housing Construction Agreement with the Finance Bureau of Haimen District, and the construction works will be carried out in accordance with relevant plans, requirements, and procedures. The initial funds for the affordable housing projects are borne by the Company. After these projects are completed and sold at government pricing, the local government pays the Company based on the actual cost plus a markup in return, generally 6-15%. As of 30 September 2022, the Company has completed 17 affordable housing construction projects with a total investment of RMB 9.1 billion. The total salable area of these affordable housing was 2.5 million square meters, while the sold area was 1.6 million square meters. The cash payments from the government were received in a timely manner, amount to RMB4.6 billion for these projects. The Company also had 13 affordable housing projects under construction or planning as of 30 September 2022, with a total investment of RMB13.4 billion and an outstanding amount of RMB10.2 billion. There is sufficient project reserve to ensure the sustainability of the Company's business.

In addition, JHIH's infrastructure construction projects are mainly undertaken by its subsidiaries, Jiangsu Dongbuzhou Science Park Group Co. Ltd ("JDSP") and Nantong Dieshiqiao Construction Engineering Co., Ltd ("NDCE"). In terms of business scope, JDSP is responsible for the construction of infrastructure projects in Linjiang New Area, while NDCE is responsible for infrastructure construction in Dieshiqiao Textile Area. JDSP and NDCE respectively signed an agency agreement with the entrusting party, who shall make an annual payment equivalent to 120% of the actual construction cost either during the construction period or upon completion. As of 30 September 2022, the Company has completed 10 infrastructure construction projects with a total investment of RMB2.9 billion and received project payments of RMB2.7 billion. The Company also has 9 infrastructure construction projects under construction or planning, with a total investment of RMB5.2 billion and an outstanding investment of RMB1.6 billion.

We believe the Company's large pipelines of affordable housing and infrastructure construction projects will ensure the sustainability of JHIH's future revenue.

Increasing exposure to commercial activities

Apart from public services, JHIH is engaged in diversified commercial activities including trading business, property leasing and property management. Under business transformation, the Company also plans to develop the fund investment business. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than its affordable housing and infrastructure construction businesses. The Company's exposure to commercial businesses is considered to be increasing, accounting for 25%-30% of its total assets as of 30 September 2022, based on our estimates.

JHIH has high-quality leasing assets which provides additional recurring income. The Company's leasing assets include textile products wholesale market, medical and biological research development base and Linglong Street. As of 30 September 2022, the overall occupancy rate of the wholesale market exceeded 95%. The lease term is ten years, and the rent increases by around 5% year by year. However, most of the lease contracts in the wholesale market have expired at the end of 2022, and the Company has started to renew the leases for the shops. The medical and biological research development base and Linglong Street are the new leasing assets in 2021, all of which are rented out. The lease term is 5 years and the rent is fixed at a certain level. Affected by the pandemic in 2020 and 2022, some tenants were exempted from paying rent for three months. The Company's rental income increased from RMB202 million in 2019 and RMB173 million in 2020 to RMB313 million in 2021. The gross profit of this segment is outstanding, with a gross profit margin of 84.5% in 2021. Due to the easing of the pandemic and the increase in new leasing assets, we expect the Company to generate relatively stable operating cash flow, and the risk exposure arising from this business segment is considered to be low.

JHIH has also developed the fund and real estate equity investment business. The risk exposure from the investment is considered high as the investment period is long and the return on the investment is uncertain. However, as the Company mainly invests in real estate projects with state-own enterprises, the actual risk exposure of this segment may be lower. We expect the Company will continue to increase fund investment in the future, which will bring certain risks to the Company.

JHIH's trading business is mainly the procurement and sales of upstream and downstream materials related to affordable housing construction. Its products include steel, pipe piles, cement, concrete, cables, glycol, and copper rods. The trading business adopts a demand-on-sale model. After the Company confirms the quantity and prices with downstream customers, it organizes procurement from upstream suppliers. The Company earns the rebates between upstream suppliers and downstream distributors. However, as of 30 September 2022, the supplier and customer concentration risks were high, around 62.7% and 43.7%, respectively. This can lead to suppliers and customers dominating the deal. Besides, settlement cycles of upstream suppliers and downstream customers do not match. The Company usually gives downstream customers a credit period of three to six months, while the Company needs to settle the full payment to the upstream suppliers within two to three weeks after receiving the goods. Fortunately, the credit risk arising from the mismatch of the payment periods may be partially offset as the downstream customers are mainly construction entities entrusted by the Company for infrastructure projects.

Solid track record of receiving government payments

JHIH has received ongoing support from the Haimen District Government including capital injections, project payments and financial subsidies. From 2019 to 2022Q3, the Haimen District Government transferred a total of RMB1.4 billion in state-owned assets or cash to the Company. Apart from that, the Company received a total of RMB1.8 billion in operating and financial subsidies from 2019 to 2022Q3. As of 30 September 2022, the Company has received a total of RMB10 billion in affordable housing and infrastructure project repayments. Given the Company's strategic importance in Haimen District, we believe that the Haimen District Government will provide JHIH with ongoing operational and financial support.

Exhibit 6. Track Record of Government Supports from 2019 to 2022Q3

(RMB million)	2019FY	2020FY	2021FY	2022Q3
Capital Injection	1,090	80	88	104
-Cash	1,000	-	-	-
-Assets	90	80	88	104
Project Repayment	1,281	1,595	1,125	567
Government Subsidies	501	641	447	185
Total	**2,872**	**2,316**	**1,660**	**856**

Source: Company information, CCXAP Research

Fast-growing debt levels driven by large development pipelines

JHIH has a high debt leverage owing to its debt-driven business expansion over the past few years. Affected by the continuous investment in affordable housing projects, the Company's total debt increased from RMB22.6 billion at end-2019 to RMB36.1 billion as of 30 September 2022. Its capitalization ratio, as measured by total debt to total capital, was 66.8% as of 30 September 2022.

As of 30 September 2022, the Company has 19 projects under construction, with a gross investment of around RMB15.4 billion and an outstanding amount of RMB8.6 billion. Furthermore, the Company had 3 projects under planning with an outstanding investment amount of RMB3.2 billion over the next two to three years. Apart from the ongoing investment in affordable housing and infrastructure construction projects, the Company will also increase its investment in commercial projects, such as fund investment and leasing property construction, which will be difficult to obtain direct financial support from the local government. Considering that the continuous investment in these projects mainly relies on external financing, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

In addition, JHIH's asset liquidity is moderate. As of 30 September 2022, the Company has pledged a number of assets for loans, such as cash, inventory, and commercial properties, with a total amount of RMB13.4 billion, accounting for around 23.5% of its total assets. The Company's inventories and other receivables account for 53.3% of the total asset. The Company's inventories mainly include costs of construction projects and affordable housing projects, which we believe have low liquidity. The Company's other receivables are mainly from local state-owned enterprises, which also put certain pressure on the Company's liquidity.

Good access to diversified funding

JHIH's liquidity profile was weak with a low cash to short-term debt ratio of around 0.4x as of 30 September 2022, indicating that its cash balance was insufficient to cover its short-term obligations. The Company's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. As of 30 September 2022, the Company has obtained total bank credit facilities of RMB22.8 billion, with an unutilized amount of RMB2.6 billion. The Company also has a good track record for fund-raising activities in the capital market. For example, in 2022, the Company raised RMB7.3 billion from onshore bonds with coupon rates from 2.63% to 4.1%. The Company also issued a total of USD235 million dollar bonds through its subsidiaries. In addition, the average financing cost in recent years is low. As of 30 September 2022, the Company has low exposure to non-standard financing of 0.9% of the total debt. The debt pressure in Haimen District is generally controllable, which provides a good financing environment for LIIFCs in Haimen District.

High level of external guarantees

JHIH's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 September 2022, the Company had outstanding external guarantees of RMB9.6 billion, accounting for 53.3% of its net assets. Most external debt guarantees were provided to local state-owned companies, and we believe the risks of providing guarantees to local state-owned companies is manageable, given the local government's control over these companies. However, approximately RMB1.3 billion of external guarantee were provided to five real estate companies, all of which are operating normally without major lawsuits or penalties. Among them, three companies are associate companies of JHIH and are under the control of Jiangsu Longxin Real Estate Co., Ltd ("Jiangsu Longxin"). They are Longxin Haicheng Real Estate (Changzhou) Co., Ltd ("Longxin Haicheng"), Longxin Haichuang Real Estate (Gaoyou) Co., Ltd ("Longxin Haichuang") and Longxin Haiyue Real Estate (Hai'an) Co., Ltd ("Longxin Haiyue"). The external guarantees to these three real estate companies will be due by April 2024. Moreover, JHIH has requested counter-guarantees for some of these guarantees such as using land as a pledge.

ESG Considerations

JHIH faces environmental risks because it has undertaken primary affordable housing and infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

JHIH bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Haimen District. 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.

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

Structural Consideration

JHIH's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its key roles in local affordable housing construction in Haimen District, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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