

## Credit Opinion

5 June 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub> -
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Jinghe New City Development and Construction (Group) Co, Ltd of Xixian New Area, Shaanxi Province

### Initial credit rating report

**CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Jinghe New City Development and Construction (Group) Co, Ltd of Xixian New Area, Shaanxi Province, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Jinghe New City Development and Construction (Group) Co, Ltd of Xixian New Area, Shaanxi Province (“JDCG” or the “Company”) reflects (1) Xixian New Area Government’s very strong capacity to provide support; and (2) the local government’s relatively high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Xixian New Area Government’s capacity to provide support reflects Xixian New Area’s status as one of 19 state-level new areas with sound fundamentals and good fiscal stability, but constrained by its high debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role as the primary urban developer and operator of Jinghe New City; (2) solid track record of receiving government payments.

However, the Company’s rating is constrained by (1) medium exposure to commercial activities; (2) relatively high debt leverage owing to debt-driven business expansion; and (3) high level of external guarantees exerting contingent risk.

The stable outlook on JDCG’s rating reflects our expectation that Xixian New Area Government’s capacity to provide support will remain stable, and the Company will maintain its important strategic position in the development of Jinghe New City.

## Rating Drivers

- Essential role as the primary urban developer and operator of the Jinghe New City
- Medium exposure to commercial activities
- Solid track record of receiving government payments
- Relatively high debt leverage owing to debt-driven business expansion
- Fair access to fundings but with certain proportion of high-cost nonstandard products
- High level of external guarantees exerting contingent risk

## Rating Sensitivities

### What could upgrade the rating?

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

### What could downgrade the rating?

The rating could be downgraded if (1) Xixian New Area 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 increased exposure to commercial activities.

## Key Indicators

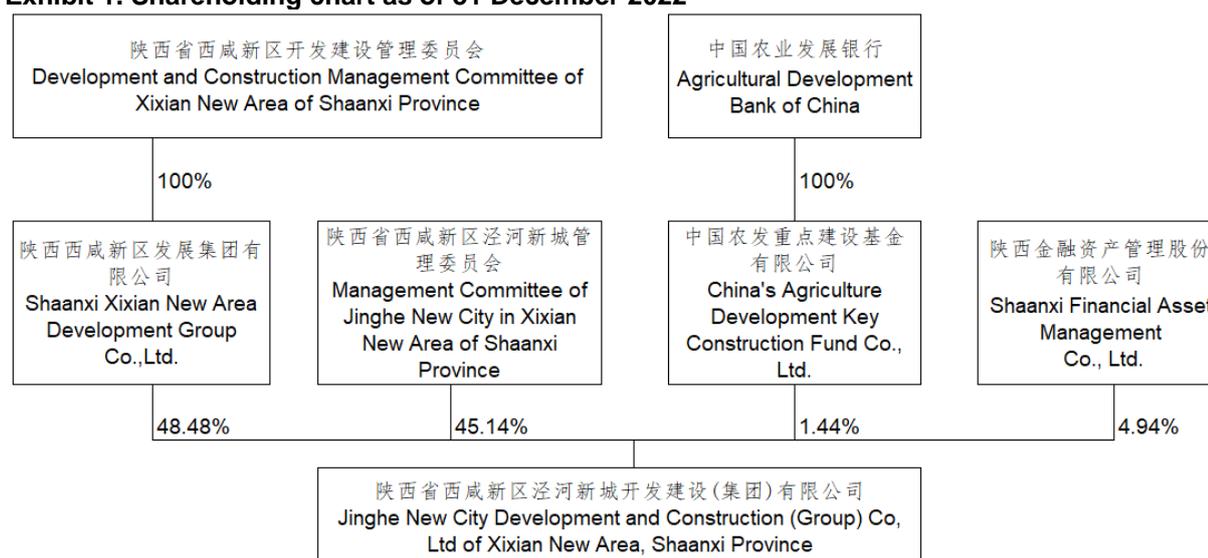
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	29.2	37.1	44.0
Total Equity (RMB billion)	8.5	10.4	12.0
Total Revenue (RMB billion)	2.0	2.8	3.0
Total Debt/Total Capital (%)	68.4	68.3	66.9

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

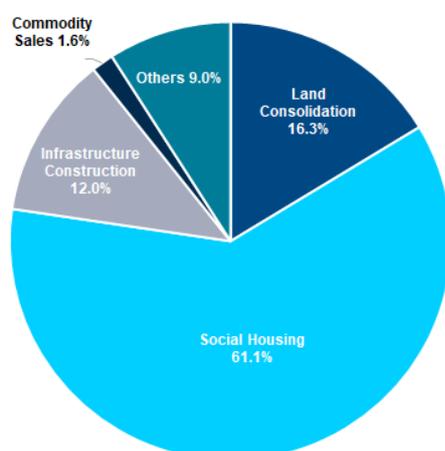
Source: CCXAP research

## Corporate Profile

Founded in 2011, JDCG is one of the key local infrastructure investment and financing companies ("LIIFCs") of Xixian New Area. It has developed entrusted construction and franchising businesses to upgrade industrial facilities, incubate and operate high-quality industrial parks. JDCG focuses on land consolidation and development, social housing construction, infrastructure construction, industrial park construction and operation, as well as commodity sales in Jinghe New City. As of 31 December 2022, the Company was controlled by the Development and Construction Management Committee of Xixian New Area of Shaanxi Province, which indirectly held 48.5% of the Company's shares through Shaanxi Xixian New Area Development Group Co., Ltd. Also, the Management Committee of Jinhe New City in Xixian New Area of Shaanxi Province ("Jinghe New City Management Committee") is the second largest shareholder, which directly held 45.1% of the Company's shares.

**Exhibit 1. Shareholding chart as of 31 December 2022**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2022**

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Xixian New Area Government has very strong capacity to provide support for the Company, given its status as one of 19 state-level new areas with sound fundamentals and good fiscal stability, but is constrained by its high debt burden.

Xi'an City is the provincial capital of Shaanxi Province and is located in the center of Shaanxi Province. It is also a Vice-provincial City and a National Central City approved by the State Council. On the back of its geographical advantages, Xi'an City has developed six pillar industries, including electronic information manufacturing, automobiles, aerospace, high-end equipment manufacturing, new materials and new energy, as well as biomedicine. Xi'an City is the biggest city in Shaanxi Province in terms of economic size and its gross regional products ("GRP") ranked first in Shaanxi Province over the past five years. In 2022, Xi'an City reported GRP of over RMB1.1 trillion, representing a year-over-year ("YoY") growth of 4.4% and accounting for approximately 35% of Shaanxi Province's GRP. It also has good fiscal stability with tax income contributing to over 70% of the

general budgetary revenue over the past three years. However, its fiscal balance ratio (calculated by general budgetary revenue/general budgetary expenditure) was 53.0% in 2022, which was at a relatively weak level. Xi'an City also had a relatively high debt burden as its outstanding government debt was RMB362.6 billion as of 31 December 2022, accounting for 31.6% of its GRP.

### Exhibit 3. Key economic and fiscal indicators of Xi'an City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,002.0	1,068.8	1,148.7
GRP Growth (%)	5.2	4.1	4.4
General Budgetary Revenue (RMB billion)	72.4	85.6	83.4
General Budgetary Expenditure (RMB billion)	134.8	147.5	157.3
Local Government Debt (RMB billion)	281.0	323.1	362.6

Source: Statistics Bureau of Xi'an City, CCXAP research

Xixian New Area is a state-level new area located between Xi'an City and Xianyang City. It was established by the Shaanxi Provincial Government in 2011 and became the seventh state-level new area in 2014 with the approval of the State Council. It is strategically positioned as the new modern center of Xi'an City, the new engine of the western development, an important fulcrum of the Silk Road Economic Belt, as well as the national experimental area for innovative urban development. From 2019 to 2021, Xixian New Area's GRP increased from RMB52.1 billion to RMB65.3 billion. Xixian New Area's fiscal resources continued to increase and it reported a general public budgetary revenue of RMB10.6 billion in 2021. Taxes represented a large proportion of its revenue, which accounted for 80.2% and became the stable source of revenue. Meanwhile, Xixian New Area's fiscal self-sufficient rate improved to 70.7%. However, Xixian New Area has a relatively high debt burden, its outstanding government debt amounted to RMB72.5 billion as of end-2021, accounting for about 111.0% of GRP.

### Exhibit 4. Key economic and fiscal indicators of Xixian New Area

	2019FY	2020FY	2021FY
GRP (RMB billion)	52.1	61.3	65.3
GRP Growth (%)	10.6	7.2	3.7
General Budgetary Revenue (RMB billion)	7.2	8.4	10.6
General Budgetary Expenditure (RMB billion)	12.6	13.4	15.1
Local Government Debt (RMB billion)	61.5	65.6	72.5

Source: Statistics Bureau of Xixian New Area, CCXAP research

Jinghe New City is one of the five regions and is located in the northeastern part of the Xixian New Area. Leveraging its geographical advantages, Jinghe New City is designated to be developed into an industrial base focusing on emerging industries such as new energy, new materials and manufacture of high-end equipment; developing priority industries such as geological information, modern services, modern agriculture, and cultural tourism. Jinghe New City's GRP increased by 9.2% YoY in 2022, which was 5.7 percentage points higher than the growth rate of Xixian New Area and 4.8 percentage points higher than that of Xi'an City.

### Government's Willingness to Provide Support

#### Essential role as the primary urban developer and operator of the Jinghe New City

JDCG is the primary development, construction, and operation company in Jinghe New City, focusing on land consolidation, social housing, and infrastructure construction projects in Jinghe New City.

As the major developer and operator of Jinghe New City, JDCG focuses on land consolidation in Jinghe New City by signing land consolidation agreements with Jinghe New City Management Committee and Jinghe New City Land Reserve Centre. The Company carries out land acquisition, demolition, compensation, development, and consolidation within the planned area of Jinghe New City, following the land development and investment plans formulated by the Jinghe New City Management Committee. It would make installment payments to the Company based on the actual cost plus a markup in return upon completion. As of 31 December 2022, the Company had 4 districts under consolidation, with a total investment of RMB4.1 billion and an uninvested amount of RMB1.0 billion. However, the payments always have a close link with local land sales conditions, the land consolidation and development business is greatly affected by the government's land planning and fluctuation in the local land market.

JDCG engages in the development and construction of social housing in Jinghe New City. As of 31 December 2022, the Company had 2 projects under construction and 1 project under planning with a total investment of RMB5.7 billion and uninvested amount of RMB4.7 billion, exerting high capital expenditure pressure. Among them, some social housing construction projects are targeted sales, which are expected to receive income by selling resettlement houses, leasing or selling shops, and parking lots when completed construction. Sales of these projects are carried out under the guidance of the Jinghe New City Management Committee and the Jinghe New City Land Reserve Centre.

In addition, JDCG is responsible for the construction of various types of infrastructure facilities in Jinghe New City. The Company undertakes the majority of these facility projects under an agency construction model by entering into agent construction agreement or project construction memorandum with the relevant clients, usually with a certain degree of markup. JDCG has completed the construction of major transportation networks in Jinghe New City and the total length of roads constructed amounted to over 100 kilometres, connecting Jinghe New City to the centre of Xi'an City and its surrounding regions. From the perspective of project reserves, the Company had 11 projects under construction as of 31 December 2022, with a total planned investment of RMB5.3 billion and an outstanding amount of RMB2.1 billion. The sufficient project reserves showed the sustainability of the Company's public-policy businesses.

Overall, considering the JDCG's dominant position in undertaking public-policy projects in Jinghe New City, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

### **Medium exposure to commercial activities**

Apart from public-policy projects, JDCG is engaged in commercial activities mainly in and industrial park construction. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than infrastructure construction business under agency construction model. The Company's exposure to commercial businesses is considered to be medium, accounting for less than 30% of its total assets as of 31 December 2022, based on our estimation.

In order to attract investments and promote the development of local industries, JDCG actively participates the industrial park construction and operation and focuses on promoting the development of dual-carbon photovoltaic and hydrogen energy industries. The representative projects under construction include New Energy Industrial Base Project, Intelligence and Innovation Industrial Park Project, as well as Jixianli Project. We believe, the riskiness of this business is manageable as the development of industrial parks is more policy-driven and beneficial to the local industrial development, which also aligns with the development blueprint of Xixian New Area Government.

The construction of the industrial parks is under self-operated model, the earnings are mainly from the leasing and selling to entities settled in after the completion of construction, which relies less on government payments but exposes the Company to more funding and business risks. Therefore, the Company may rely on external financing for these self-operated projects, which would increase JDCG's capital expenditure and debt burden. As of 31 December 2022, the Company had 11 self-operated projects under construction and 5 projects under planning with a total investment of RMB19.9 billion and an outstanding amount of RMB13.2 billion.

JDCG also conducts diversified market-oriented businesses such as property management services, car rental, charging piles, advertising, as well as commodity sales (fu tea and commodity housing), which provided supplementary income to the Company with continuous growth over the past few years. The performance of these activities is highly dependent on the market conditions and we consider the risks related to these activities may increase if the Company further enlarges the investment, especially in property development.

### **Solid track record of receiving government payments**

JDCG serves an important public policy function and is strategically important to local development. The Company has received ongoing support from the Xixian New Area Government and the Jinghe New City Management Committee, in terms of capital injections, project repayments, and operating subsidies. The Company is expected to receive ongoing government payment for its public-policy activities. The repayments of key projects are visible as the related agreement signed with the local government consisting of the payment schedule and scheme. From 2020 to 2022, the Company received a total of RMB4.6 billion in project repayments.

In addition, from 2020 to 2022, the local government injected capital of more than RMB2.3 billion in cash to the Company, which substantially enhanced the capital strength of the Company. Apart from that, the Company received a total of RMB508.4 million in operating subsidies over the same period, including subsidies for the construction of social housing, water conservancy upgrade, and key provincial town. We expect JDCG to receive ongoing government support mainly in the form of cash payments, equity injections, as well as operating subsidies to maintain the further construction of the government-mandated public projects and investments. The Company is expected to receive the allocation of government special-purpose bond proceeds to support the industrial park development.

### **Relatively high debt leverage owing to debt-driven business expansion**

JDCG reported fast debt growth owing to its debt-driven business expansion over the past few years. As of 31 December 2022, the Company's total debt increased to RMB24.3 billion from RMB15.5 billion at end-2019. Its capitalization ratio maintained relatively high level over the years and recorded at 66.9% as of 31 December 2022. The projects under construction or planning require ongoing external capital support. With the ongoing investment in land consolidation, social housing, and infrastructure construction projects, as well as the industrial parks and commercial buildings under construction and planning, the Company is planning to invest approximately RMB21.0 billion over the next few years. The continuous investment in these projects may rely on external financing, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

### **Fair access to funding but with certain proportion of high-cost nonstandard products**

JDCG's large investment needs could be partially supported by its good refinancing ability. It has maintained a good relationship with policy banks, large state banks and commercial banks. As of 31 December 2022, the

Company has obtained total bank credit facilities of RMB37.3 billion, with an unutilized amount of RMB10.8 billion. The Company has participated in debt capital markets including onshore and offshore bonds. For example, in 2022, the Company issued 2 tranches of onshore bonds and 1 tranche of USD bond, raising RMB800 million and USD100 million respectively, of which coupon rates ranging between 7.2% and 7.5%. It also accesses to high-cost nonstandard financing channels such as trust and financial leasing to meet its funding needs. The Company had a certain proportion of these products as it accounted for around 25% of total debt as of 31 December 2022.

Taking into account of JDCG's important status and the key role in the local development of Jinghe New City, we expect the Company to maintain access to stable funding from the commercial banks. However, the rising debt level in Xixian New Area and Jinghe New City may put certain pressure on the financing activities of the Company.

### **High level of external guarantees exerting contingent risk**

JDCG's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 31 December 2022, the Company had outstanding external guarantees of RMB8.4 billion, accounting for around 69.6% of its net assets. It is mainly the cross-guarantee with other state-owned enterprises within the 5 regions of Xixian New Area which exposes the Company to substantial contingent liabilities. If a credit event occurs in the Xixian New Area, it may lead to large-scale cross-effects. However, we believe that the contingent risk of the external guarantee is moderately controllable, considering the state-owned enterprises' important strategic position in their respective regions with the local government's support in a timely manner.

### **ESG Considerations**

JDCG faces environmental risks because it has undertaken land consolidation, social 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.

JDCG bears social risks as it implements public policy initiatives by building public infrastructure in Jinghe New City. 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.

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

### **Structural Consideration**

JDCG'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 important strategic position in the development of Jinghe New City, 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 \(July 2022\)](#).

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