

## Credit Opinion

30 June 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

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## Jinan Hi-tech Holding Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Jinan Hi-tech Holding Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Jinan Hi-tech Holding Group Co., Ltd. (“JNHT” or the “Company”) reflects Jinan Innovation Zone Government’s (1) very 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 Jinan Innovation Zone Government’s capacity to provide support reflects Jinan Innovation Zone’s vital role as one of the first batch of national high-tech zones, with good economic fundamentals and rapid development potential.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic importance in the social and economic development of Jinan Innovation Zone; (2) solid track record of receiving government support; and (3) high acceptance in the debt capital market and relatively low financing costs.

However, the Company’s rating is constrained by its (1) medium operational risks from market-driven commercial activities; and (2) high debt management pressure arising from ongoing investment.

The stable outlook on JNHT’s rating reflects our expectation that Jinan Innovation Zone Government’s capacity to provide support will be stable; and the Company’s characteristics such as its essential role in regional development will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Strategic importance in the social and economic development of Jinan Innovation Zone
- Solid track record of receiving government support
- Medium operational risks from market-driven commercial activities
- High debt management pressure arising from ongoing investment
- High acceptance in the debt capital market and relatively low financing costs

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Jinan Innovation Zone Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increased public-policy projects, significant reduction in risky commercial activities, and improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Jinan Innovation Zone 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 strategic significance, deteriorated access to fundings, or significant increase in external guarantees.

## Key Indicators

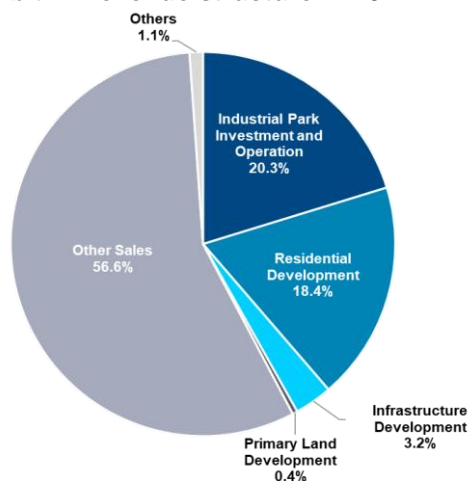
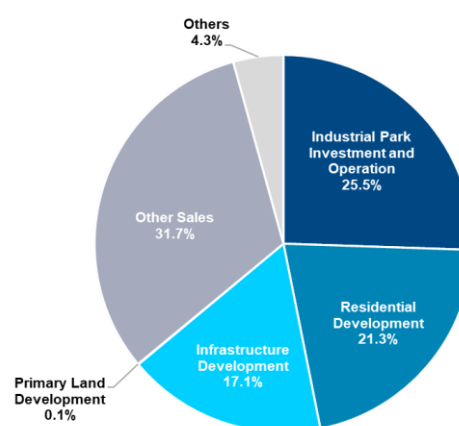
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	83.6	94.2	102.0	108.4
Total Equity (RMB billion)	26.0	29.2	30.6	33.4
Total Revenue (RMB billion)	7.0	10.1	19.7	4.6
Total Debt/Total Capital (%)	67.6	68.4	70.2	70.3

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

Source: CCXAP research

## Corporate Profile

Founded in 2001, JNHT is the most important local infrastructure investment and financing company ("LIIFC") in Jinan Innovation Zone and acts as the key facilitator of Jinan Innovation Zone Committee's plan for infrastructure construction. The Company operates and manages diversified business segments and focusing on the investment and operation of industrial parks. It helps attract investments and provides facilities for industrial, scientific research and commercial purposes including office buildings, factories and industrial bases in industrial parks. It is also responsible for the construction of public infrastructure projects such as water supply and sewage treatment facilities, primary land development, and shantytown renovation. Apart from that, the Company is also engaged in commercial activities such as residential property development, IT hardware and services, and financial services. As of 31 March 2023, JNHT is ultimately owned and controlled by the State-owned Assets Supervision and Administration Commission of the Jinan Hi-tech Industrial Development Zone ("Jinan Innovation Zone SASAC").

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding chart as of 31 March 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Jinan Innovation Zone Government has very strong capacity to provide support, given Jinan Innovation Zone's vital role as one of the first batch of national high-tech zones, with good economic fundamentals and rapid development potential.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Jinan City is a sub-provincial city, the capital of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1 trillion over the past three years. In the same period, Jinan City ranked 9<sup>th</sup> by GRP among 15 sub-provincial cities in China and ranked 2<sup>nd</sup> among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2020 to 2022, its general budgetary revenue increased from RMB90.6 billion to RMB100 billion, with average self-sufficient rate (general budgetary revenue/general budgetary expenditure) of 75.9%. As of 31 December 2022, the local government's outstanding debt amounted to RMB266.0 billion, accounting for 22.1% of GRP.

**Exhibit 4. Key economic and fiscal indicators of Jinan City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,014.1	1,143.2	1,202.8

GRP Growth (%)	4.9	7.2	3.1
General Budgetary Revenue (RMB billion)	90.6	100.8	100.0
General Budgetary Expenditure (RMB billion)	128.8	129.3	126.0
Local Government Debt (RMB billion)	168.3	212.0	266.0

Source: Statistic Bureau of Jinan City, CCXAP research

Established in March 1991, Jinan Innovation Zone is one of the first batch of national high-tech zones approved by the State Council and is strategically located in Jinan City. Jinan Innovation Zone focuses on the development of three pillar industries namely big data and new generation information technology industry, intelligent manufacturing and high-end equipment industry, biomedicine and big health industry. Six industrial parks and multiple industrial bases and scientific research institutes have been formed. Jinan Innovation Zone has demonstrated increasing economic growth in recent years and it reported GRP of RMB129.2 billion, RMB151.0 billion, and RMB161.9 billion in 2020, 2021, and 2022, respectively. In 2022, Jinan Innovation Zone's comprehensive strength ranked 10<sup>th</sup> among all national high-tech zones in China and 1<sup>st</sup> among those in Shandong Province. Jinan Innovation Zone had a strong fiscal balance that showed an upward trend, as its general budgetary revenue/general budgetary expenditure ratio increased from 115.0% in 2021 to 155.0% in 2022. It also had a healthy debt profile with government debt/GRP ratio of 5.8% as of 31 December 2022, although this ratio had risen slightly from 3.8% as of 31 December 2020.

#### **Exhibit 5. Key economic and fiscal indicators of Jinan Innovation Zone**

	2020FY	2021FY	2022FY
GRP (RMB billion)	129.2	151.0	161.9
GRP Growth (%)	6.5	9.3	3.3
General Budgetary Revenue (RMB billion)	13.0	14.8	15.6
General Budgetary Expenditure (RMB billion)	11.3	9.7	10.1
Local Government Debt (RMB billion)	4.9	7.1	9.3

Source: Statistic Bureau of Jinan Innovation Zone, CCXAP research

### **Government's Willingness to Provide Support**

#### **Strategical importance in the social and economic development of Jinan Innovation Zone**

JNHT is the most important entity in regional development and aligns with the local government's strategic objectives and development blueprint for Jinan Innovation Zone. The Company is strategically important to the Jinan Innovation Zone Government, given its dominant role in the investment and operation of industrial parks in the region. As the main developer and manager in the Jinan Innovation Zone, it is responsible for attracting investment and providing related services to meet the needs of settled enterprises. Before the construction of a project begins, the Company typically enters into an agent construction agreement with the buyer company that wants to operate in the Jinan Innovation Zone. Upon project completion, the buyer company will pay JNHT at the agreed sales price. As of 31 March 2023, the Company had completed a total of 27 key projects with a total investment of RMB32.2 billion. At the same time, sufficient project reserves ensured the sustainability of the Company's business, and it had more than 20 projects in the planning and construction stages.

Moreover, JNHT plays an important role in providing public utility services to the community. The Company takes part in the construction of water supply and sewage treatment projects. The Company's water supply project provides water to companies and residents in Jinan Innovation Zone, with an annual water supply of more than 18.3 million cubic meters. Under the authorization of the Jinan Innovation Zone Committee, the Company constructs sewage treatment projects through either the build-operate-transfer model or the agent

construction model. As of 31 March 2023, the Company had 5 sewage treatment plants under operation, providing municipal sewage treatment services for the main areas of Jinan Innovation Zone.

In addition, JNHT principally conducts land consolidation and shantytown renovation in the region. The Company has a large inventory of projects under construction and is highly sustainable. As of 31 March 2023, the land consolidations of Nanhu, Beihu, Dahanyu, and Xiaohanyu had been basically completed, with an uninvested amount of RMB1.0 billion. JNHT also had 3 shantytown renovation projects under construction, with a total investment of RMB3.6 billion and an uninvested amount of RMB494 million.

#### Exhibit 6. Key public projects under construction as of 31 March 2023

Project types	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<b>Projects Under Construction</b>			
Industrial Parks	17.8	8.6	9.2
Land Consolidation	7.1	6.1	1.0
Shantytown Renovation	3.6	3.1	0.5
<b>Projects Under Planning</b>			
Industrial Parks	11.4	-	11.4
<b>Total</b>	<b>39.9</b>	<b>17.8</b>	<b>22.1</b>

Source: Company information, CCXAP Research

Considering JNHT's policy role in social and economic development and its close links with the local government's development blueprint, we believe that potential substitution is low and that government support is likely in the near future.

#### Solid track record of receiving government support

JNHT has a solid track record of receiving various forms of government support such as financial subsidies, special funds, and asset injections. As the most important LIIFC in the area, the Jinan Innovation Zone Government had increased the Company's capital base by direct cash injections or asset injections, and the cumulative amount in the past three years had exceeded RMB2.3 billion. As of 31 March 2023, the Company's paid-in capital and capital reserve were RMB4.0 billion and RMB18.4 billion, respectively.

From the perspective of government project payments, the total repayment from 2020 to 2022 was RMB1.8 billion. Over the same period, the Company received financial subsidies of RMB173.2 million for carrying out policy support activities. In order to support the ongoing development of the industrial parks, the local government also provided special funds and loans to JNHT, with recognized amounts of RMB616 million, RMB600 million, and RMB20 million from 2020 to 2022, respectively.

#### Exhibit 7. Government support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	92.9	47.0	33.3
Equity Transfer	1,074.8	-	-
Government Payments (Land Consolidation)	1,734.0	32.4	31.3
Capital Injections			
- Cash	1,606.0	76.3	130.0
- Assets	383.4	-	142.1
Special Funds and Loans	616.0	600.0	20.0

Others	-	89.8	346.0
<b>Total</b>	<b>5,507.1</b>	<b>845.5</b>	<b>702.7</b>

Source: Company information, CCXAP Research

We believe that, considering the important position of JNHT and its close relationship with the local government, the local government will provide strong support to the Company in times of need, which will remain good over the next 12 to 18 months.

### **Medium operational risks form market-driven commercial activities**

JNHT has a relatively high proportion of commercial activities, mainly in commercial property leasing, property development, and financial services. Although these activities are related to the Company's core business of industrial park development, they have high commercial components and are subject to higher operational risks.

JNHT participates in property development, including the construction of residential projects for employees of companies operating in the Jinan Innovation Zone as well as the residents. However, the recent volatility in China's real estate market has had a negative impact on this segment, and there are uncertainties in the sale and revenue of subsequent real estate projects. Moreover, the projects under construction require large capital expenditure for ongoing development. As of 31 March 2023, the Company had 5 key projects under construction with an uninvested amount of RMB4.0 billion; it also had 1 project under planning with a total investment of RMB2.3 billion. The Company's leasing business has also been expanded over the past three years, which is in line with the completion of the industrial park projects. At the same time, the Company owns nearly 20 leasable properties including Dongzheng Factory, Dinghao Plaza, Shuntai Plaza, and Hanyu Jingu.

JNHT conducts industrial investment in the form of direct equity investment, fund investment and financial services to promote local industrial development, but we believe that the return on these investments are subject to the operational and financial uncertainties of the invested companies. The Company actively invests in representative enterprises in different industries such as semiconductors, pharmaceuticals, and biotechnology. The Company also invests in different industrial development funds as a limited partner, aiming to promote the development of local high-tech industries and attract investments into its industrial parks. Moreover, the Company participates in financial services such as small loans and guarantees and provided financial support to other state-owned enterprises and private enterprises. These financial services expose the Company to certain risks of private enterprises, which have higher operating and contingent risks during market downturn.

In addition, the Company's revenue from the commodity sales business increased significantly as a result of its acquisition of Shandong Yulong Gold Co., Ltd. ("Yulong"). Yulong's business cover bulk commodities such as coal, rubber, chemicals, agricultural products, oil products, and minerals, but its gross profit margin is relatively low and its future performance is highly volatile. At the same time, it is expected that there will be subsequent financing needs in further acquisitions and mining, so it is necessary to pay attention to related risks.

### **High debt management pressure arising from ongoing investments**

JNHT demonstrated rapid debt growth and high debt burden. The Company's total debt (including perpetual bonds) increased from RMB49.7 billion as of 31 December 2020 to RMB66.5 billion as of 31 March 2023, mainly due to continued investment in construction projects and commercial activities. Meanwhile, its total capitalization ratio increased from 67.6% to 70.3%. Moreover, the Company's short-term debt pressure is relatively high. As of 31 March 2023, the short-term debt was RMB26.4 billion, accounting for 40.5% of total debt. Furthermore, the cash to short-term debt ratio was only 0.6x, which could not fully pay the short-term debt. We expect JNHT's

debt burden will remain at a relatively high level, as the Company has large investment plans in industrial park development and residential property development, with approximately RMB26.2 billion of projects under construction and planning.

JNHT also exhibits moderate asset liquidity, which may undermine its financial flexibility. Inventories (mainly construction cost of industrial parks and residential properties), receivables, investment properties, and financial assets (investment of equities and funds) accounted a large proportion of the Company's total assets, all with relatively low liquidity and relatively high impairment risk. Together, these assets accounted for about 73% of total assets as of end-2023Q1.

### **High acceptance in the debt capital market and relatively low financing costs**

JNHT has good access to funding sources, including bank loans and onshore and offshore bond issuance, which could partially relieve its short-term refinancing pressure. JNHT has established good long-term relationships with a number of banks and financial institutions. As of 31 March 2023, the Company had total credit facilities of RMB73.8 billion, with the undrawn portion being RMB33.7 billion. These credit facilities are mainly provided by domestic banks, including policy banks, national joint-stock commercial banks, and large state-owned bank, and several financial institutions.

The Company is also an active issuer in the debt capital market, and its debt mainly comes from direct issuance of bonds (including perpetual bonds). It has issued different financial products in debt markets such as SCPs, commercial papers, MTNs, private placement notes, and offshore bonds. From January 2022 to June 2023, the Company raised RMB25.2 billion from the onshore debt market with coupon rates ranging from 2.09% to 5.5%. At the same time, it issued two tranches of USD bonds with a total amount of USD500 million.

As of 31 March 2023, bonds accounted for more than 60% of JNHT's total debt, followed by bank loans (around 22%), and non-standard financing products (around 12%). Meanwhile, the Company's weighted average financing cost was at a relatively low level of less than 5%. Considering the Company's important position as an irreplaceable platform in Jinan Innovation Zone, we expect JNHT to maintain good access to financing such as domestic bank loans and the bond markets.

### **ESG Considerations**

JNHT assumes environmental risks through its construction projects including industrial parks and residential properties. Such risks could be mitigated by the Company through detailed planning before the commencement of projects.

The Company is also exposed to social risks as a public services provider. Demographic changes, public awareness and social priorities shape government's target for JNHT and, affect the government's propensity to support the Company.

JNHT's governance considerations are also material as the Company is subject to oversight by Jinan Innovation Zone 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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