

Credit Opinion

8 August 2023

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

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Qingdao Jimo District Urban Development Investment Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g+

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 ("GRP") 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.

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.

Rating Drivers

- Strategic importance in affordable housing and infrastructure construction in Jimo District
- Solid track record of receiving government support
- Medium and increasing exposure to commercial activities
- Increasing debt burden to support the regional development
- Good access to diversified funding
- Contingent risks associated with large amounts of external guarantees

Rating Sensitivities

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 access to fundings, or materially increased exposure to risky commercial activities

Key Indicators

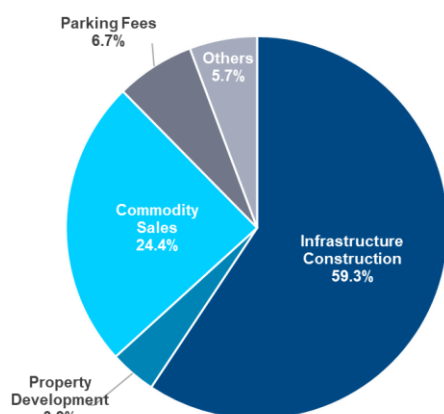
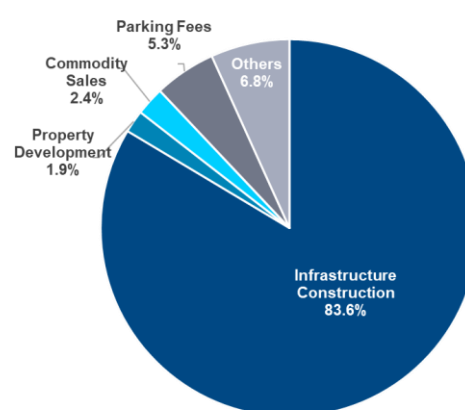
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	39.5	48.4	53.3	55.2
Total Equity (RMB billion)	13.9	18.5	18.7	18.7
Total Revenue (RMB billion)	1.9	1.5	1.8	0.1
Total Debt/Total Capital (%)	60.0	57.4	61.5	63.5

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

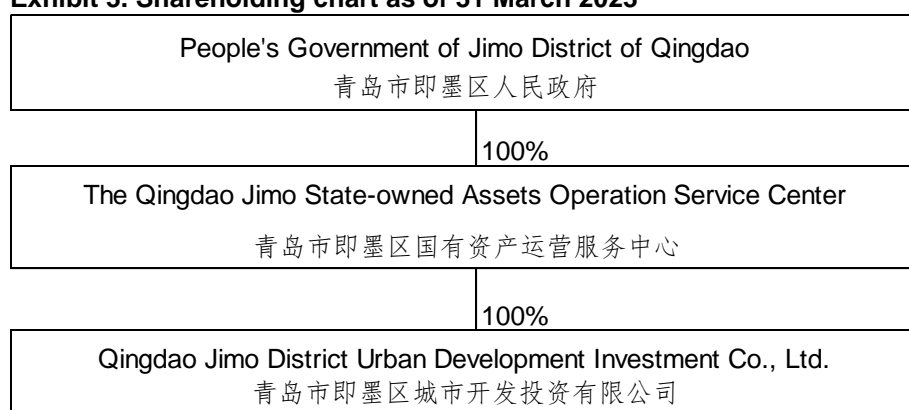
Source: CCXAP research

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.

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 Jimo District Government has strong capacity to provide support, reflects Jimo District's status as one of the top three largest districts by GRP in Qingdao City for years, with growing economic and fiscal strengths.

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. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported GRP of RMB1,492.1 billion in 2022, ranking first in Shandong Province and 13th among China's municipalities. Qingdao City also has strong fiscal strength and manageable debt profile. In the past five years, its general budgetary revenue covered around 80% of its general budgetary expenditure and tax incomes accounted for around 70% of its general budgetary revenue. Its government's debt/GRP was as low as 20.6% as of 31 December 2022.

Exhibit 4. Key economic and fiscal indicators of Qingdao City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,240.1	1,413.6	1,492.1
GRP Growth (%)	3.7	8.3	3.9

General Budgetary Revenue (RMB billion)	125.4	136.8	127.3
General Budgetary Expenditure (RMB billion)	158.5	170.7	169.6
Local Government Debt (RMB billion)	205.8	255.9	308.0

Source: Statistic Bureau of Qingdao City, CCXAP research

Jimo District is located in the southwest region of the Shandong peninsula, on the west coast of the Yellow Sea and the north of the Lao Mountain, with abundant supply of natural resources, such as land, sea and mineral resources. Jimo District comprises seven towns, one provincial-level economic development zone, one high-tech industrial development zone and one provincial-level tourism and resorts zone. It has formed six pillar industries, including traditional industries such as automobiles, textiles and clothing, as well as trade and logistic; emerging industries such as marine, new-generation information technology, as well as biomedicine.

Jimo District is a developing district and it has demonstrated fast economic growth over the past three years. It recorded GRP of RMB127.8 billion, RMB145.3 billion, and RMB151.3 billion in 2020, 2021, and 2022, with growth rates of 5.8%, 6.9%, and 2.6%, respectively. Jimo District's GRP ranked third among all the districts or counties in Qingdao City for years. Jimo District had a relatively strong fiscal balance as its general budgetary revenue covered around 80% of its general budgetary expenditure. It also has good fiscal stability with tax income contributing around 70% of the general budgetary revenue over the past three years. As of 31 December 2022, the outstanding amount of local government debt amounted to RMB16.3 billion, increasing from RMB12.8 billion at end-2021 and accounting for 10.8% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Jimo District

	2020FY	2021FY	2022FY
GRP (RMB billion)	127.8	145.3	151.3
GRP Growth (%)	5.8	6.9	2.6
General Budgetary Revenue (RMB billion)	11.2	11.6	10.0
General Budgetary Expenditure (RMB billion)	12.8	12.8	13.3
Local Government Debt (RMB billion)	11.8	12.8	16.3

Source: Statistic Bureau of Jimo District, CCXAP research

Government's Willingness to Provide Support

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, with high strategic importance.

JMUI is mainly responsible for building affordable housing projects by BT model. The Company is required to use its own funds or funds raised for project construction, and the local government will purchase the project from the Company after completion, generally with 20% mark-up. Redevelopment of Shantytowns Project Phase I is the representative project completed by the Company, which encourages the improvement of living conditions and living standards of residents of shantytowns. As of 31 March 2023, the project's total investment amount and government repayments were RMB4.6 billion and RMB5.0 billion, respectively. However, the Company's business model in affordable housing construction is changing to self-operated model, fund balancing will be partly achieved from market sales.

JMUI also conducts infrastructure construction through agent construction model. The Company has undertaken a number of infrastructure construction projects including public supporting facilities and

landscaping works. Under the agent construction model, the Company signs a construction agreement with the government or related parties before each project is developed and the government will pay the total cost plus a few percentage markups after examining the projects. As of 31 March 2023, the Company had completed the construction of Comprehensive Improvement Project of Mohe Model Section, with total investment of RMB960 million and government repayments of RMB347.0 million. From the perspective of project reserves, the Company has the Airport East-West Expressway project under planning. However, this project is still in the initial stage, without detailed information at that moment, such as the total investment amount and construction period.

Overall, JMUI has a large development scope in Jimo District and a strong capability for business sustainability. The Company 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, including 40-year parking lot operation right, 30-year sewage treatment operation right, as well as sewage treatment facilities, which enlarged the Company's business scope and further strengthened its capital base. Moreover, the Company's project constructions are usually supported by the government special funds. For example, the local government will provide special funds to support the future construction of Airport East-West Expressway, according to the management. From 2020 to 2023Q1, the local government provided operating subsidies of RMB563.6 million to the Company. We expect that the Company will maintain its strategically important position in affordable housing and infrastructure construction in Jimo District, and the local government will continue to support its development when necessary.

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.

JMUI conducts its property development business through the sale of residual properties after relocating the original residents under a property relocation and resettlement project. The Company's shantytown renovation projects contain part of commercial houses, shops, and parking spaces, which are sold at the market price after the resettlement ones are sold to resettled households under the coordination of the government. As of 31 March 2023, Fangzi Street Regional Resettlement Housing Project is the Company's key project at sale, with remaining sales area of 16.3 thousand square meters. These assets are highly dependent on the real estate market sentiment and prices, driving higher volatility in revenue. Meanwhile, there were several self-operated property projects under construction, with estimated investment amount of around RMB7.0 billion.

JMUI also participates in property leasing including several commercial buildings, land parcels such as salt fields, and outdoor billboards providing stable income of approximately RMB17.5 million per year. As of 31 March 2023, the Company owned a leased asset area of 232,800 square meters and had leased out 197,900 square meters at present, with an occupancy rate of about 85%. Among them, tenants of the Company's investment properties are mainly local enterprises generally with lease term of 3 years, which could ensure the

stability of the business. Moreover, the Company obtained the franchise of charge for some parking spaces and roadside parking spaces in Jimo District with long concession of 40 years, demonstrating strong sustainability.

Additionally, with the completion and operation of newly developed investment properties in the future, it is expected that JMUI's rental income will continue to increase. The leasable assets under construction include some self-operated projects engaging by the JMUI, such as the development of industrial parks, vocational education zone, and sports center, which will be achieved project funds balancing through leasing when put into operation. As of 31 March 2023, the Company had 4 key self-operated projects under construction, with an estimated total investment amount of RMB4.0 billion and an uninvested amount of RMB728.3 million. The Company is expected to rely on external financing for these self-operated projects, which would increase its capital expenditure burden. Nevertheless, the construction of the industrial parks is for attracting high-tech companies to settle in Jimo District and supporting the development of the traditional industry of automobile.

Furthermore, JMUI is also involved in commodity sales, such as rubber, steel bars, zinc ingots, and aluminum. The proportion of the Company's commodity sales revenue to its total revenue has continued to grow in the past three years, which increased to RMB448 million and accounted for 24.4% of the total revenue in 2022. However, a high concentration of risk can lead to lower pricing and negotiation leverage, reducing its profitability. The top 5 suppliers and customers recorded relatively high proportions of more than 80% and 60%, respectively.

We expect that JMUI's commercial activities will contribute to its overall revenue along with the completion of the projects. 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 to support the regional development

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. Meanwhile, the cash to short-term debt ratio was 0.3x, which could not fully cover the short-term debt. 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.

Moreover, the Company's asset liquidity was relatively weak. As of 31 March 2023, investment properties and inventories that we considered low liquidity totally represented around 50% of total assets, which mainly consist of land and investment costs for construction projects. Meanwhile, the total restricted assets were RMB11.3 billion which accounted for 60.5% of net assets. The relatively large amount of restricted assets may bring certain risks to subsequent financing and asset utilization.

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, such as China Development Bank and China Everbright Bank Co., Ltd., providing sufficient standby liquidity. As of 31 March 2023, the Company had total bank facilities of RMB31.0 billion, with the available portion being RMB9.3 billion.

The Company actively participates in debt capital markets and shows relatively high acceptance. However, bond issuance accounts for a relatively high proportion of the Company's total debt and its refinancing will be easily affected by the capital market conditions. From January 2022 to June 2023, the Company issued several tranches of domestic bonds raising around RMB11.0 billion, with coupon rates ranging between 2.3% and 6.2%. Over the same time, the Company also issued 2 tranches of offshore bonds, including a USD bond of USD261 million and coupon rate of 4.9%; a Pearl bond of RMB560 million and coupon rate of 6.2%. As of 31 March 2023, the Company had a manageable exposure to non-standard financing, which accounted for less than 10% of total debt.

Contingent risks associated with large amounts of external guarantees

JMUI's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. 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. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. We consider JMUI's contingent liabilities risks to be medium as there is no clear mechanism for the Company to be adequately compensated if these entities fail to repay.

ESG Considerations

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

JMUI bears social risks as it implements public policy initiatives by building public infrastructure in Jimo 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.

JMUI's governance considerations are also material as the Company is subject to oversight by Jimo District 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer comparison

	Qingdao Jimo District Urban Development Investment Co., Ltd.	Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd.
Long-Term Credit Rating	BBB _g +	BBB _g +
Shareholder	Qingdao Jimo State-owned Assets Operation Service Centre (100%)	Qingdao Jimo State-owned Assets Operation Service Centre (100%)

Positioning	Key entity to carry out affordable housing and infrastructure construction projects within Jimo District.	Key entity to focus on the provision of public utility services and infrastructure construction in Jimo City
Total Asset (RMB billion)	53.3	40.4
Total Equity (RMB billion)	18.7	17.9
Total Revenue (RMB billion)	1.8	0.8

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2022.

Source: CCXAP research

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