

Credit Opinion

29 August 2023

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

Analyst Contacts

Kelly Liang +852-2860 7127
Credit Analyst
kelly_liang@ccxap.com

Jessica Cao +852-2860 7131
Credit Analyst
jessica_cao@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Jiangsu Shuanghu Investment Holding Group Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g- long-term credit rating of Jiangsu Shuanghu Investment Holding Group Co., Ltd. (“SHIH” or the “Company”) reflects (1) the Jianhu County Government’s relatively strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Jianhu County Government’s capacity to provide support reflects Jianhu County’s status as one of the CCID Top 100 Counties in China, with moderate fiscal metrics and weak debt profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status as the largest local infrastructure investment and financing company (“LIIFC”) in Jianhu County; (2) key role in infrastructure construction and affordable housing in Jianhu County; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) certain exposure to non-standard financing; and (2) medium level of contingent risk.

The stable outlook on SHIH’s rating reflects our expectation that Jianhu County Government’s capacity to provide support will remain stable, and the Company will maintain its important position in Jianhu County over the next 12-18 months.

Rating Drivers

- Key role in infrastructure construction and affordable housing in Jianhu County
- Increasing exposure to commercial activities
- Relatively high debt leverage with increasing short-term debt burden
- Certain exposure to non-standard financing
- Good track record of receiving government support
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Jianhu County 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 policy significance, significantly increased exposure to risky commercial activities or increased in contingent liability risk.

Key Indicators

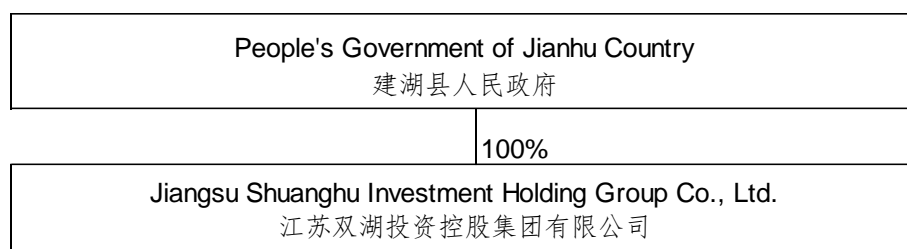
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	60.1	68.2	73.5
Total Equity (RMB billion)	26.6	32.3	33.5
Total Revenue (RMB billion)	2.9	2.9	2.6
Total Debt/Total Capital (%)	51.1	48.1	49.7

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

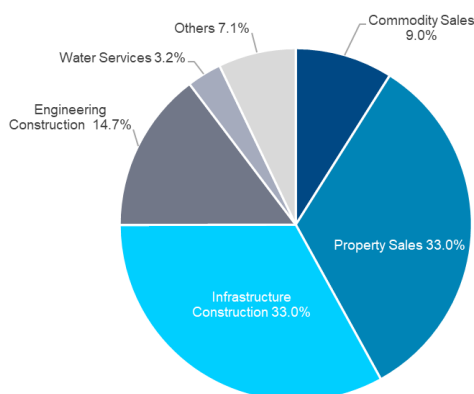
Source: Company information, CCXAP research

Corporate Profile

Founded in 2017, SHIH consolidated several local state-owned enterprises in 2021, making it the largest LIIFC by total assets in Jianhu County. The Company is responsible for the investment and operation of affordable housing and infrastructure construction in Jianhu County. SHIH has a diversified business scope including infrastructure construction, engineering construction, water service, property sales, and commodity sales. As of 31 December 2022, Jianhu County Government had the ultimate control of the Company and directly held 100% shares of the Company.

Exhibit 1. Shareholding 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 Jianhu County Government has a relatively strong capacity to provide support to the Company, given its status as one of the CCID Top 100 Counties in China. Jianhu County's economic and fiscal strength has improved over years of development. However, its fiscal metrics are moderate and debt profile is relatively weak.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world's leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2022, its total gross regional product ("GRP") amounted to RMB12.3 trillion with a year-over-year ("YoY") growth rate of 2.8, and the GRP per capita was RMB144,390, the highest one among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Its pillar industries include auto parts, machinery, textiles, and chemical industry. Yancheng City is undergoing an economic transition and is developing emerging industries such as high-tech electronic manufacturing, big data, new energy, and intelligent manufacturing, which will help support sustainable economic growth in the long run. In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8th among 13 municipals in Jiangsu Province. At the same time, Yancheng Municipal Government reported a general budgetary revenue of RMB45.3 billion, of which tax income accounted for around 65.6%. However, its fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) was 40.5%, which was at a moderate level.

As of the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion at end-2022, accounting for about 21.7% of GRP.

Exhibit 3. Key economic and fiscal indicators of Yancheng City

	2020FY	2021FY	2022FY
GRP (RMB billion)	595.3	661.7	708.0
GRP Growth (%)	3.5	7.7	4.6
General Budgetary Revenue (RMB billion)	40.0	45.1	45.3
General Budgetary Expenditure (RMB billion)	97.4	105.3	111.8
Local Government Debt (RMB billion)	137.0	147.3	153.5

Source: Yancheng Municipal Government, CCXAP research

Jianhu County is a county-level city under the administration of Yancheng City. Jianhu County is one of the Top 100 counties in China released by CCID Consulting County Economic Research Center and it ranked 76th in 2022. The economic and financial strength of Jianhu County was at the middle level among the districts and counties of Yancheng City in 2022. Three leading industries in Jianhu County are high-end equipment, new energy and electronic information industry. From 2020 to 2022, Jianhu County's economic strength improved steadily with GRP increasing from RMB59.4 billion to RMB71.0 billion. Affected by the COVID-19 pandemic and the government policy of tax rebates in 2022 to promote the development of the local economy, Jianhu County reported that the tax revenue slightly decreased to RMB2.6 billion from RMB2.7 billion in 2021. However, Jianhu County Government's fiscal balance ratio is relatively low at 32.7% in 2022, reflecting a high reliance on fiscal support from higher-tier governments and proceeds from land sales to balance its fiscal budget. Its outstanding government debt amounted to RMB17.8 billion at end-2022, accounting for about 25.0% of GRP and around 122.8% of fiscal income.

Exhibit 4. Key economic and fiscal indicators of Jianhu County

	2020FY	2021FY	2022FY
GRP (RMB billion)	59.4	63.3	71.0
GRP Growth (%)	3.3	12.1	4.2
General Budgetary Revenue (RMB billion)	3.2	3.5	3.8
General Budgetary Expenditure (RMB billion)	9.1	10.5	11.5
Local Government Debt (RMB billion)	13.4	16.8	17.8

Source: Jianhu County Government, CCXAP research

Government's Willingness to Provide Support

Clear and strong position in Jianhu County

There are four major LIIFCs in Jianhu County under the control of the Jianhu County Government. Among them, SHIH is a key entity with the largest assets scale in investment and operation of infrastructure construction in Jianhu County. It consolidated five state-owned enterprises in Jianhu County including the Jianhu County City Construction Investment Group Co., Ltd. ("JHCI"). As of end-2022, the Company's total assets amounted to around RMB73.5 billion. In addition, the Company also has the largest outstanding amount of bonds among the LIIFCs in Jianhu County. A default by SHIH could have a significant impact on the local government's reputation and local financing environment. The Company is mainly responsible for affordable housing, infrastructure construction, water supply and sewage treatment in the urban area of Jianhu County. The other three LIIFCs' main business scopes cover the rural area of Jianhu County, Jianhu Economic Development Zone and Jianhu

High-tech Industrial Development Zone, respectively. Each LIIFC in Jianhu County has a clear position under the government's planning.

Key role in affordable housing and infrastructure construction in Jianhu County

SHIH is one of the core LIIFCs in Jianhu County which is responsible for important infrastructure construction tasks in Jianhu County, including shantytown projects, affordable housing and road construction, as well as provide public services including water supply, sewage treatment and bus operation.

SHIH is engaged in infrastructure construction within Jianhu County mainly through agent construction model. Under the agent construction model, the Company signs a construction agreement with the related parties before each project is developed and the related parties will pay the total cost plus a few percentage markups after examining the projects. As of the end of 2022, the Company had 3 entrusted construction projects under construction with a total investment of RMB1.7 billion and an uninvested amount of RMB1.4 billion. The Company is also engaged in engineering construction business such as road construction, pipeline network construction and water installation works within Jianhu County. As of the end of 2022, the cost of infrastructure construction and engineering construction accounted for a large portion of its assets.

SHIH provides water supply and sewage treatment in Jianhu County with regional monopoly advantages. By the end of 2022, the Company's operate four water plants with a daily water supply capacity of 132 thousand tons and a daily sewage treatment capacity of 55 thousand tons. The water business has a slight deficit due to its public welfare characteristic, but the government provides appropriate subsidies every year.

SHIH's property sales business mainly includes affordable housing which were sold to resettlement inhabitants directly, other LIIFCs in Jianhu County or to the public market if there is a surplus after meeting the needs of resettlement inhabitants. As of the end of 2022, the Company had six major completed affordable housing projects with a total investment of RMB7.5 billion and sales amount of RMB4.5 billion, and had five affordable housing projects under construction with a total investment of RMB4.2 billion and an uninvested amount of RMB82.0 million. The main construction of these projects had all been substantially completed.

Since SHIH has almost completed the construction of affordable housing, the business sustainability of affordable housing and infrastructure construction depends on its small project reserves. However, given its track record of undertaking major projects in Jianhu County and its holding of large public assets such as water plants and affordable housing, we expect the Company will maintain its important position in Jianhu County. After the consolidation of state-owned enterprises, SHIH is expected to continue undertaking major projects according to the planning of the local government such as the development of the Shanggang Area and transportation projects.

Increasing exposure to commercial activities

SHIH is also engaged in some commercial activities such as commodity sales, leasing business and security services. Based on our assessment of its assets, its exposure to commercial activities is small but increasing such as investment in commercial buildings.

The Company's commodity sales segment consists primarily of medical consumables, steel, coal, hot pressed iron and small amount of chemicals. In 2021 and 2022, the revenue of the Company's commodity sales was RMB532.2 million and RMB232.6 million respectively. Although the Company has been able to stabilize its sources of goods while expanding its market through cooperation with upstream and downstream enterprises, the gross profit margin was low due to the fierce competition in the market.

SHIH engages in the leasing business and its income is mainly derived from the rental of office buildings and storefronts, and the rental of water pipeline assets. The lease of water pipeline network assets is mainly leased to sewage treatment companies, with the Jianhu County Finance Bureau paying for the lease costs. The Company also has a self-owned property under construction, the Financial and Government Services Centre. The property has a total investment of RMB613.0 million and an uninvested amount of RMB460.6 million. Upon completion, the property will be leased out mainly to state-owned enterprises and government units, forming a new supplement to the Company's leasing income.

Relatively high debt leverage with increasing short-term debt burden

SHIH's debt burden and debt leverage are relatively high mainly due to large investment in affordable housing in the early stage. From 2020 to 2022, SHIH's total debt grew to RMB33.1 billion from RMB27.8 billion with an average annual growth rate of 9.2%, which is mainly used for project investment. The Company's debt leverage, measured by the total capitalization ratio, remained at a relatively high level of around 50% over the past three years. In addition, the Company has a certain short-term debt burden. From 2020 to 2022, the short-term debt increased to around RMB14.0 billion from RMB10.4 billion, and it accounted for 42.8% of total debt as of the end of 2022. The Company plans to improve the debt structure by replacing short-term debt with longer tenor. At the same time, the cash to short-term debt ratio was 0.4x. The Company is expected to continue relying on external financing for debt repayment and ongoing investment. We expect that the Company will maintain a relatively high debt leverage for the next 12-18 months.

Good track record of receiving government support

SHIH and its subsidiaries have a solid track record of receiving support from the local government in various forms such as equity transfers, debt swap funds and government subsidies to support its operation. In 2021, the local government transferred its holding of several important state-owned enterprises into the Company, making it the largest LIIFC in Jianhu County. From 2020 to 2022, the local government provided a total subsidy of RMB719.0 million to the Company. We expect that the Company will maintain its strategically important position in infrastructure construction in Jianhu County, and the local government will continue to support its development when necessary.

Good access to bank borrowing and bond issuance, but also expose to non-standard financing

SHIH has access to funding channels including bank loans, domestic capital market and financial companies. The debt from bank loans and bond issuances accounted for the majority of total debt. The Company maintains long-term close relationships with different large domestic banks including large state-owned commercial banks and joint-stock commercial banks. As of 31 December 2022, the Company had total bank facilities of RMB17.7 billion, with the available portion being RMB2.1 billion. JHCI, an important subsidiary of SHIH, has issued different financial products in the domestic market. For example, in July 2023, JHCI issued a trench of 3-year PPN guaranteed by SHIH to raise RMB550 million with a coupon rate of 6.0%. However, the Company had certain exposure to non-standard financing. As of end-2022, non-standard financing borrowing accounted for around 20% of total debts with relatively high costs, including financial leases and trusts. In addition, the Company's restricted assets accounted for around 20.7% of total assets, which reduced the financial flexibility of the Company.

Medium level of contingent risk

SHIH's credit profile is constrained by its external guarantees, which could potentially increase its repayment

obligations. As of 31 December 2022, the Company had external guarantees of RMB6.8 billion, accounting for around 20.2% of its net assets, which exposes the Company to substantial contingent liabilities. The guarantees are provided to other state-owned enterprises but no counter-guarantee measures were in place. In case a credit event occurs, the Company may face large-scale cross-effects risks, which could negatively impact its credit quality. Nevertheless, we believe that the contingent risk of the external guarantee is moderately controllable, considering the position of some of these state-owned enterprises and may receive timely support from the local government.

ESG Considerations

SHIH faces environmental risks because it has undertaken 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.

SHIH bears social risks as it implements public policy initiatives by building public infrastructure in Jianhu 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.

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

Structural Consideration

SHIH's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in Jianhu County, 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 \(July 2022\)](#).

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656