

Credit Opinion

30 August 2023

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

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Nanjing Jiangning Economic and Technological Development Group Corporation Limited

Surveillance credit rating report

CCXAP affirms Nanjing Jiangning Economic and Technological Development Group Corporation Limited's long-term credit rating at A_g-, with stable outlook.

Summary

The A_g- long-term credit rating of Nanjing Jiangning Economic and Technological Development Group Corporation Limited ("JETD" or the "Company") reflects Jiangning District Government's very strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the Jiangning District Government's capacity to provide support reflects its sound economic fundamentals and fiscal strength. Jiangning District has ranked top among all districts in Nanjing City by gross regional product ("GRP") and general budgetary revenue over the past years.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) high strategic importance to the infrastructure construction and development of Jiangning Economic Technology Development Zone ("Jiangning ETDZ"); (2) good track record of receiving government payments; and (3) good access to diverse funding channels.

However, the rating is constrained by the Company's (1) medium commercial activities risk associated with industrial and commercial properties; (2) increasing debt burden and moderate asset liquidity.

The stable outlook on JETD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic position as the largest investment and operation entity in the Jiangning ETDZ.

Rating Drivers

- High strategic importance to the infrastructure construction and development of the Jiangning ETDZ
- Good track record of receiving government payments
- Medium commercial activities risk associated with industrial and commercial properties
- Increasing debt burden and moderate asset liquidity
- Good access to different funding channels
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Jiangning District Government's ability to provide 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 or materially increased exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	94.7	108.9	117.4	124.8
Total Equity (RMB billion)	27.4	30.8	31.8	32.4
Total Revenue (RMB billion)	5.0	5.5	5.9	1.3
Total Debt/Total Capital (%)	73.4	75.5	77.0	78.9

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

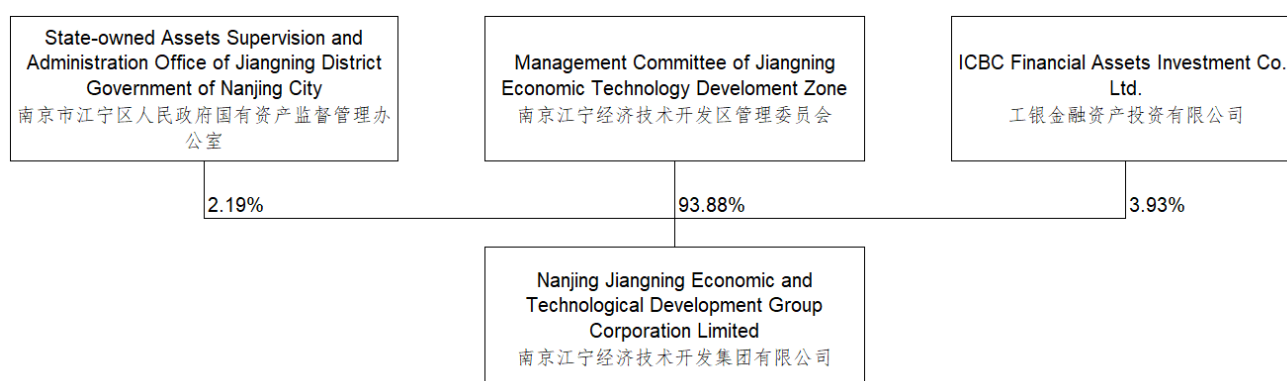
Source: Company information, CCXAP research

Corporate Profile

Established by the Jiangning District Government in December 1992, JETD is a leading state-owned enterprise in the Jiangning District. It has played an important role in the implementation of the Jiangning District Government's blueprint for urban planning and municipal construction within the Jiangning ETDZ, the Airport Economic Development Zone Jiangning Area ("AEDZ Jiangning Area") and the Jiangsu Software Park ("Software Park"). JETD is the primary enterprise focusing on the development of the Jiangning ETDZ. The Company is engaged in three major business segments, including infrastructure construction, urban landscaping and facility management, and leasing and property management.

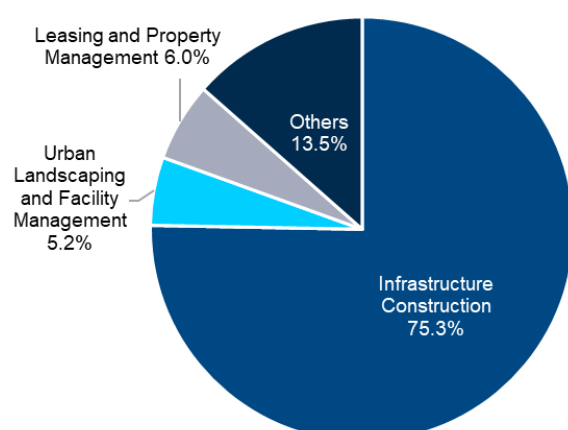
As of 31 March 2023, the Management Committee of Jiangning ETDZ is the ultimate owner of JETD, directly holding 93.88% shares of the Company. The State-owned Assets Supervision and Administration Office of Jiangning District Government of Nanjing City and ICBC Financial Assets Investment Co., Ltd. directly owned the remaining 2.19% and 3.93% of the Company's shares, respectively.

Exhibit 1. Shareholding Chart as of 31 March 2023



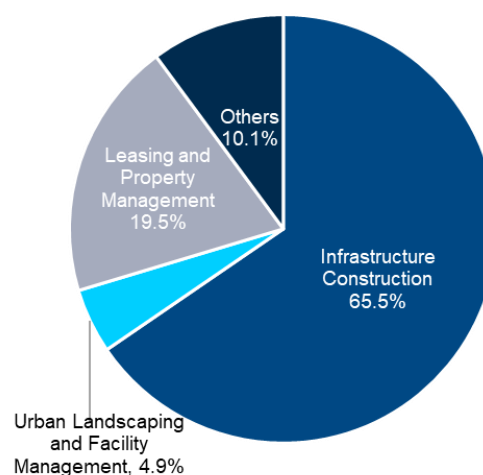
Source: Company information, CCXAP research

Exhibit 2. Revenue Structure as in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross Profit Structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe the Jiangning District Government has a very strong capacity to provide support as the largest district in Nanjing City by GRP, with sound economic fundamentals and fiscal metrics.

Nanjing City is the capital city of Jiangsu Province which is the second largest province in China by GRP. It is an important central city and one of the largest cities in the Yangtze River Delta Region, with a solid economic and industrial foundation. It has a diversified economic structure, with the service industries contributing over 60% of its GRP. Its pillar industries include information technology, energy saving and environmental protection, new energy, smart power grid and intelligent equipment manufacturing. In recent years, Nanjing City's economy has developed steadily. In 2022, Nanjing City recorded a GRP of RMB1.7 trillion, a Year-on-Year ("YoY") increase of 2.1% and in the first half of 2023, the GRP of Nanjing City reached RMB831.7 billion. Nevertheless, affected by tax rebate policy, the Nanjing Municipal Government's general budgetary revenue of Nanjing City in 2022 was recorded at RMB155.8 billion, representing a YoY decrease of 9.9%. Tax income represents a large proportion of the general budgetary revenue, accounting for more than 75% over the past three years. In addition, the Nanjing Municipal Government's debt burden is manageable with outstanding debt of RMB298.8 billion as of end-2022, accounting for 17.7% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Nanjing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,481.8	1,635.5	1,690.8
GRP Growth (%)	4.6	7.5	2.1
General Budgetary Revenue (RMB billion)	163.8	173.0	155.8
General Budgetary Expenditure (RMB billion)	175.5	181.8	182.9
Local Government Debt (RMB billion)	281.8	289.0	298.8

Source: Nanjing Municipal Government, CCXAP research

Jiangning District is the top district in Nanjing City in terms of GRP and fiscal revenue. In 2022, Jiangning District recorded a GRP of RMB300.0 billion, accounting for 17.7% of Nanjing's GRP. It has developed different industries including high-tech manufacturing, new materials production, biotechnologies, as well as high-end modern services. Affected by tax rebate policy in 2022, Jiangning District Government's general budgetary revenue was reduced to RMB20.3 billion. Tax has been a stable source of income, accounting for over 80% over the past few years. Moreover, the fiscal strength of Jiangning District Government was strong as evidenced by its good fiscal balance ratio of over 80% over the past three years. Meanwhile, the debt profile of Jiangning District was moderate, with a government debt to GRP ratio of 12.3% as of end-2022.

Exhibit 5. Key Economic and Fiscal Indicators of Jiangning District

	2020FY	2021FY	2022FY
GRP (RMB billion)	250.9	280.1	300.0
GRP Growth (%)	5.3	7.5	2.1
General Budgetary Revenue (RMB billion)	26.4	26.5	20.3
General Budgetary Expenditure (RMB billion)	24.7	27.0	25.1
Local Government Debt (RMB billion)	33.8	35.5	37.0

Source: Jiangning District Government, CCXAP research

Jiangning District's economic growth comes mainly from its industrial zones, including the Jiangning ETDZ, which has a total area of 243 square kilometers and has been a national-level economic and technological development zone since 2010. Jiangning ETDZ has formed some core industries including automobile, smart grid, and new generation information technology. According to the assessment results of the Ministry of Commerce of China in 2022, Jiangning ETDZ ranked eighth among 217 national-level economic zones and ranked third among 119 economic development zones in Jiangsu Province. In 2022, the GRP of Jiangning ETDZ increased by 2% YoY to RMB190.0 billion and accounted for about 65% of Jiangning District's GRP.

Government's Willingness to Provide Support**High strategic importance to the infrastructure construction development of the Jiangning ETDZ**

JETD is the largest local infrastructure investment and financing company ("LIIFC") in the Jiangning ETDZ and even in Jiangning District. It has a high public-policy role in the development of Jiangning District and is responsible for the construction of local infrastructure projects such as roads, bridges, water facilities, relocation housing and other public facilities within the Jiangning ETDZ, the AEDZ Jiangning Area and the Software Park. It is mandated by the local government with entrusted construction agreements to undertake the construction of municipal infrastructure and primary land development. Over the past years, JETD has invested in many large-scale public projects such as Jiangjun Avenue Renovation Project, Yinxiang Relocation Housing Project Phase IV Project, and Bridge (from Jiyin Avenue Across Qinhuai River) Construction Project, with a total

investment of RMB26.9 billion. These projects are crucial to the public welfare of residents and help improve the local transportation system. As of 31 March 2023, the Company had more than 50 projects under construction, with a total investment of RMB12.3 billion and an outstanding amount of RMB6.0 billion.

The Company is also engaged in urban landscaping and facility management business in Jiangning ETDZ, including road cleaning, green maintenance, maintenance of streetlights and power facilities, and maintenance of water conservancy facilities. JETD undertakes these projects by signing relevant agreements with the Management Committee of Jiangning ETDZ, which generated stable income to the Company.

With clear positioning and policy mandate, we believe that the strategic role of JETD cannot easily be replaced by other local entities. We also expect the Company to be the primary developer in Jiangning District, particularly in the Jiangning ETDZ, and to undertake the role of local development in the future.

Medium commercial activities risk associated with industrial and commercial properties

JETD has medium commercial activities risk with ongoing business diversification in property leasing and equity investments, which are subject to the volatility of local economic and industrial development. We also expect the Company's commercial business to grow due to its increasing pipeline of projects in property leasing.

The Company is engaged in the development and operation of local properties, such as self-constructed office buildings, low-rent apartments for elites, hotels, exhibit centers, standardized factories and R&D buildings. As of 31 March 2023, it had leasable assets with a total leasable area of 2.5 million square meters, and most assets had high occupancy ratios of over 75%. Key projects included Jiulong Lake International Enterprise Headquarters Park, Nanjing National Experiment of Communication Technology Offices, and Public Rental Housing for Development Zone, with the aim to attract high-tech enterprises and talents to settled in the district. Some office buildings and standardized factories were leased out below market prices to particular enterprises within Jiangning ETDZ. The local government has provided subsidies to partially compensate the Company over the years. As of 31 March 2023, there were 7 property projects under construction and 5 projects under planning, with an outstanding investment of RMB11.8 billion, exerting pressure on future investment.

JETD also invests in local entities or projects through equity funds or direct investments which help attract investments from other regions and promote local industrial development. However, the risk exposure from the investment business is considered high as the Company invested in some real estate projects, with a total invested amount of around RMB2.6 billion. The investment period is long and the return on the investment is uncertain, especially during economic downturn.

Good track record of receiving government payments

JETD has received strong support from both the Management Committee of Jiangning ETDZ, including subsidies, capital injections, asset injections and payments for construction projects. In 2019, the Management Committee gratuitously transferred shares of four companies to the Company, which are mainly the operators of other industrial zones in the Jiangning ETDZ, enhancing its operating and capital strength. The Company continuously received government capital injections and the paid-in capital reached to RMB3.4 billion at end-2022 from RMB1.5 billion at end-2019.

At the same time, the local government bears the financing interest of public welfare projects, such as infrastructure construction. From 2020 to 2022, the Company received different types of government subsidies of approximately RMB981 million, including rental subsidies and other operating subsidies. We believe the Company will continue to receive strong government payments in the near future, given the government's active

response to local implicit debts.

Increasing debt burden and moderate asset liquidity

JETD had a high financing leverage and high debt growth owing to its debt-driven business expansion. As of 31 March 2023, the adjusted total debt (including perpetual debt) of the Company increased to RMB93.3 billion from RMB65.9 billion at end-2020, mainly driven by the fast-growing infrastructure construction and property projects. Its capitalization ratio, as measured by total debt to total capital, also rose to 78.9% from 75.5%. The Company still has a large investment and construction pipeline, including infrastructure construction and leasing property projects that are either under construction or planning. The total investment of these projects was approximately RMB30.2 billion with an outstanding investment of RMB21.1 billion. Apart from that, the Company also faced short-term debt burden, with short-term debts accounting for around 46% of the total debts as of 31 March 2023. In addition, the cash to short-term debt ratio was around 0.1x at 2023Q1, indicating refinancing needs for its short-term debt. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high level of debt for the next 12-18 months.

Exhibit 6. Projects under Construction or Planning as of 31 March 2023

Project Type	No. of Projects	Budgeted Amount (RMB billion)	Invested Amount (RMB billion)	Outstanding Amount (RMB billion)
Projects Under Construction				
Infrastructure Construction	18	12.3	6.3	6.0
Leasing Property Projects	7	10.1	2.8	7.3
Project Under Planning				
Infrastructure Construction	14	3.3	-	3.3
Leasing Property Projects	5	4.5	-	4.5
Total	44	30.2	9.1	21.1

Source: Company information, CCXAP research

As of 31 March 2023, JETD's ability to repay may be impaired by its large number of inventories, other receivables and investment properties, which accounted for 60.5% of the Company's total assets. Inventories and other receivables mainly consist of public project assets and government-related receivables that are less liquid, limiting the flexibility to liquidate assets to repay debt.

Good access to different funding channels

JETD's good access to different funding channels including banks and debt capital market could help it refinance and meet capital expenditure needs. The Company has maintained a good relationship with large domestic banks, such as large joint-stock commercial banks, and financial enterprises. As of 31 March 2023, it obtained total credit facilities of RMB130.4 billion and available credit facilities of RMB36.1 billion. The Company also has good access to both the onshore and offshore debt capital markets. It has issued different financial products in the domestic bond market. From January to July 2023, the Company raised around RMB8.9 billion from the onshore market, with coupon rates ranging from 2.45% to 4.2%. In 2022, it issued two tranches of offshore bonds, raising USD213.5 million. However, the Company maintains certain exposure to non-standard financing, including financial leasing and trust. As of 31 March 2023, it had non-standard financing of around RMB23.4 billion, accounting for around 25% of the total debts. The average financing cost of the Company's non-standard financing was around 5.6%.

Medium level of contingent risk

JETD's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 31 March 2023, the Company had external guarantees of RMB10.4 billion, accounting for 32.2% of its net assets (including perpetual bonds), which brings contingent liability risks to the Company. Most of these external guarantees were provided to other state-owned enterprises in the region with relatively manageable risks. There were external guarantees of around RMB343 million provided to a private-owned enterprise, namely Nanjing Dingrui Real Estate Co., Ltd. ("NDRE"), which will be due by the end of 2025. NDRE is operating normally without major lawsuits or penalties, and has provided certificate of deposit as pledge for this guarantee. The Company currently has a strict control over the increase of external guarantees, and the

ESG Considerations

JETD 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. The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities.

JETD is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Jiangning ETDZ. Demographic changes, public awareness and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company.

JETD's governance considerations are also material as it is subject to oversight and reporting requirements of the local government and must 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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