Credit Opinion

31 October 2023

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

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Jiangsu Dongbuzhou Science and Technology Park Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g- to Jiangsu Dongbuzhou Science and Technology Park Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangsu Dongbuzhou Science and Technology Park Group Co., Ltd. ("JDBZ" or the "Company") reflects (1) the Haimen District Government's relatively strong capacity to provide support; and (2) the local government's high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the Haimen District Government's capacity to provide support reflects Haimen District's status as the third largest district by gross regional product ("GRP") in Nantong City for years. It has good economic fundamentals and good fiscal stability.

The rating also reflects the willingness of the local government to provide support, which is based on the Company's (1) position as the core entity in infrastructure construction in Haimen District, particularly the Linjiang New Area; (2) solid track record of receiving government support; and (3) possession of leasing assets with high quality.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) medium level of contingent risk.

The stable outlook on JDBZ's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Linjiang New Area of Haimen District.

Rating Drivers

- Core entity in infrastructure construction in Haimen District particularly the Linjiang New Area
- Solid track record of receiving government support
- Good access to diversified funding
- Medium exposure to commercial activities
- Increasing debt burden and moderate asset liquidity
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Haimen District Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as an increase in policy importance or reduction in exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the Haimen District 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 deteriorated debt management or weakened access to funding.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	11.4	13.1	13.2	13.5
Total Equity (RMB billion)	4.8	5.9	6.1	6.1
Total Revenue (RMB billion)	1.0	0.9	0.7	0.4
Total Debt/Total Capital (%)	53.0	50.6	52.9	53.0

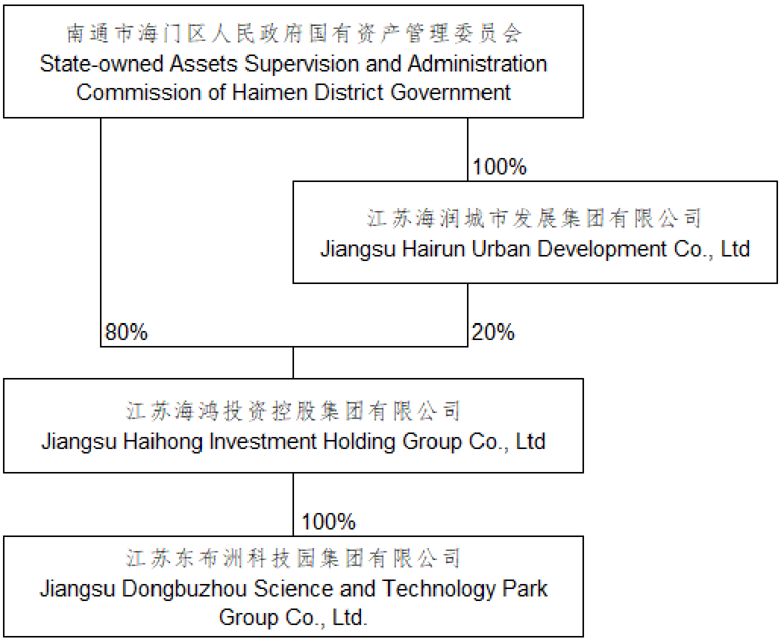
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Founded in 2013, JDBZ is one of the key local infrastructure investment and financing companies ("LIIFCs") in Haimen District, and is responsible in infrastructure construction in Linjiang New Area of Haimen District. JDBZ is also engaged in diversified commercial activities such as trading, and leasing businesses. As of 30 June 2023, the State-owned Assets Supervision and Administration Commission of Haimen District Government ("Haimen SASAC") was the ultimate controller of the Company, indirectly holding 100% of the Company's share through Jiangsu Haihong Investment Holding Group Co., Ltd ("JHIH"). JHIH is the second largest LIIFC in Haimen District by total assets under the direct control of Haimen SASAC and JDBZ is one of the major subsidiaries of JHIH.

Exhibit 1. Shareholding chart as of 30 June 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

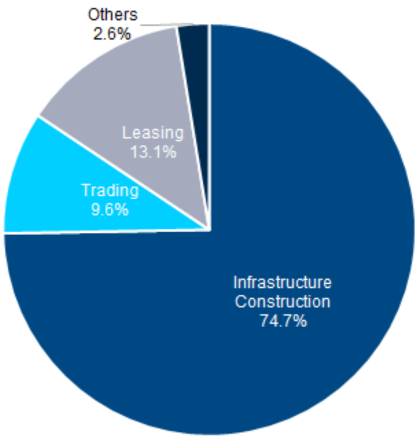
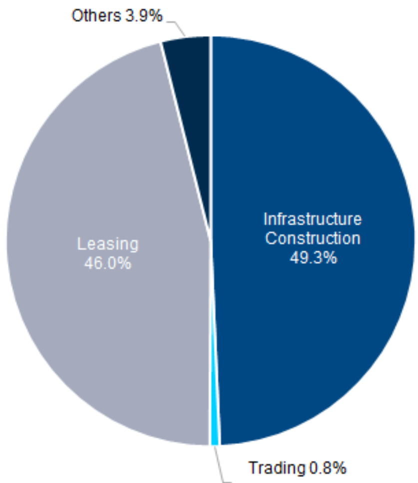


Exhibit 3. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Haimen District Government has a strong capacity to provide support for the Company, given Haimen District's status as the third largest district by GRP in Nantong City for years. Haimen District also achieved the highest GRP growth rate among all the districts and counties in Nantong City in 2022.

Nantong City is a prefecture-level city administrated under Jiangsu Province and is located in the southern part of Jiangsu Province. It is an economic center and a modern port city on the north bank of the Yangtze River Delta. On the back of its port resources and location advantages, Nantong City has developed six core industrial sectors, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. Nantong's GRP reached over RMB1.1 trillion in

2022, a year-on-year ("YoY") increase of 2.1%, ranking fourth in Jiangsu Province. Affected by the government policy of tax rebates to promote the development of the local economy, Nantong Municipal Government's general budgetary revenue and tax revenue decreased to RMB61.3 billion and RMB41.2 billion in 2022, respectively. Fiscal stability remained at a moderate level of 67.3% in 2022. Due to the recent fluctuations in the real estate market, Nantong City's government fund revenue decreased to RMB113.0 billion in 2022 from RMB144.2 billion in 2021, which may affect the local government's fiscal profile as government funds accounted for most of its fiscal revenue and came from land sales. The high linkage between the government's fiscal revenue and the property market would increase fiscal pressure on the government when the property market underperforms.

Exhibit 4. Key Economic and Fiscal Indicators of Nantong City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,003.6	1,102.7	1,138.0
GRP Growth (%)	4.7	8.9	2.1
General Budgetary Revenue (RMB billion)	63.9	71.0	61.3
General Budgetary Expenditure (RMB billion)	108.1	112.2	114.7
Local Government Debt (RMB billion)	168.4	186.3	197.9

Source: Statistics Bureau of Nantong City, CCXAP research

Haimen District is a district under the jurisdiction of Nantong City, located in the southeast of Jiangsu Province. The total area of the Haimen District is 1,148.8 square kilometers. Haimen District has developed core industries, including construction, home textile, intelligent equipment manufacturing, agriculture, and real estate. Haimen District's GRP reached over RMB163.5 billion in 2022, a YoY increase of 3.1%, ranking third in Nantong City. Despite the impact of the COVID-19 pandemic, Haimen District was still able to maintain economic growth rates of 9.4% and 3.1% in 2021 and 2022 respectively, which were above the national average growth rate, ranking first among all the districts and counties in Nantong City. In 2022, the Haimen District Government recorded general public budgetary revenue of RMB5.6 billion, of which tax revenue accounted for 59.0%. After removing the impact of tax rebates, Haimen District's general public budgetary revenue was RMB8.6 billion, a YoY increase of 5.0%. However, Haimen District Government's fiscal balance rate remained relatively weak, recorded at 47.7% in 2022. As of end-2022, Haimen District Government's outstanding debt amounted to RMB15.6 billion, accounting for about 9.5% of GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Haimen District

	2020FY	2021FY	2022FY
GRP (RMB billion)	144.3	156.9	163.5
GRP Growth (%)	5.5	9.4	3.1
General Budgetary Revenue (RMB billion)	7.4	7.9	5.6
General Budgetary Expenditure (RMB billion)	13.3	13.4	11.8
Local Government Debt (RMB billion)	15.1	15.3	15.6

Source: Statistics Bureau of Haimen District, CCXAP research

Linjiang New Area of Haimen District is located in the southeast of urban area of Haimen District, with a total area of 75.1 square kilometers. Linjiang New Area is an industrial, technological, ecological, and cultural park developed by Haimen District Government, and plays an important role in the strategic planning of Haimen District. Linjiang New Area has formed three core industries, including biopharmaceutical, electronic information and new materials, and cultural creativity industries, and has attracted many innovative technological enterprises to settle in. The general public budgetary revenue of Linjiang New Area continues to grow over the past three years and recorded RMB306 million in 2022.

Government's Willingness to Provide Support

Core entity in infrastructure construction in Linjiang New Area of Haimen District

JDBZ is one of the key LIIFCs of Haimen District Government. It has been mandated by the Haimen District Government as the core entity to implement the Haimen District Government's plans in the development of Haimen District particularly the Linjiang New Area. The Company had completed several projects along with the development of Linjiang New Area, including infrastructure construction and resettlement housing, which were essential to commercial attractiveness and the daily lives of residents.

JDBZ is the sole entity undertaking infrastructure construction in Linjiang New Area, including the construction of municipal roads, bridges, sewage pipelines, as well as resettlement housing. The Company conducts infrastructure construction under an agency construction model. The Company is responsible for financing the projects and receives payments based on the actual construction costs plus a markup upon completion, generally 20%. As of end-2022, the Company had completed key agency projects with a total investment of RMB2.0 billion. The sustainability of the infrastructure construction business is supported by its relatively strong position and sufficient projects on hand. As of end-2022, the Company had 9 key agency projects under construction, with a total investment of RMB5.2 billion and an outstanding amount of around RMB1.6 billion, which would improve the function of Linjiang New Area. We believe the Company's pipelines of infrastructure construction projects will contribute to the sustainability of JDBZ's business operation, but also bring capital expenditure pressure to the Company.

Medium exposure to commercial activities

Apart from public services, JDBZ is engaged in diversified commercial activities including trading and property leasing businesses. Although the commercial activities generate supplemental income, they may also pose higher operational and business risks than the infrastructure construction businesses. The Company's exposure to commercial businesses is considered to be moderate, accounting for less than 20% of its total assets as of end-2022, based on our estimates.

JDBZ has high-quality leasing assets which provides additional recurring income. The Company's leasing assets mainly include medical and biological research development base and Linglong Street, with a total leasable area of around 190.6 thousand square meters. All of the leasing assets have been leased out to a state-owned entity in Haimen District, namely Nantong Linjiang Construction Co., Ltd, generating more than RMB90 million leasing income per year. We expect the Company continues to generate relatively stable operating cash flow, and the risk exposure arising from this business segment is considered to be low.

JDBZ's trading business is mainly the procurement and sales of products, including ethylene glycol and machinery equipment. The trading business adopts a demand-on-sale model, which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. The Company earns the rebates between upstream suppliers and downstream distributors. However, the supplier and customer concentration risks were high, the top 5 suppliers and customers accounting for around 76.5% and 100% of the total procurements and the total sales, respectively. This can lead to the key suppliers and customers dominating the deal. Moreover, the gross profit margin of this business sector is relatively low.

Solid track record of receiving government payments

In recognition of the strategic importance of JDBZ's businesses to Linjiang New Area, the Company has received comprehensive support from the local government and its shareholder JHIH, in terms of capital injections, project repayments, and operating subsidies. JDBZ received capital injection in terms of cash of RMB900 million in 2021, increasing its paid-in capital to RMB1.0 billion. Apart from that, the local government also transferred equity shares of some state-owned enterprises to the Company in 2016, with a total value of RMB2.6 billion, which substantially enhanced the capital strength of the Company.

In addition, JDBZ also has a good track record of receiving government payments. From 2020 to 2022, the Company continuously received operating subsidies from the local government with a total amount of around RMB383.6 million. The Company is also expected to receive payments from the local government for its settled agency construction projects. As of end-2022, JDBZ had received total project repayments of RMB1.8 billion from the local government for the completed infrastructure construction projects.

Increasing debt burden and moderate asset liquidity

JDBZ has an increasing debt level owing to its debt-driven business expansion in infrastructure construction over the past few years. As of 30 June 2023, the total debt of the Company increased to RMB6.9 billion from RMB5.4 billion at end-2020. Its capitalization ratio, as measured by total debt to total capital, was recorded at 53.0% at the same date. Apart from that, the Company also faced short-term debt burden, with short-term debts accounting for around 43.4% of the total debts as of 30 June 2023. Given the Company's large capital expenditure pressure for its investment and construction projects under construction, we expect the Company will maintain a relatively high level of debt for the next 12-18 months.

JDBZ's asset liquidity is considered as moderate and some assets are restricted, which decreases the Company's financial flexibility. As of end-2022, the restricted assets amounted to RMB3.1 billion, accounting for around 23.8% of total assets and 51.6% of net assets, most of which were land assets pledged for loans. In addition, the Company's inventories and other receivables account for 63.2% of the total asset as of 30 June 2023. The Company's inventories mainly include costs of construction projects and land pledged for loans, which we believe have low liquidity. The Company's other receivables are mainly from local state-owned enterprises, which also put certain pressure on the Company's liquidity.

Good access to diversified funding

The Company's relatively large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. JDBZ has good access to various sources of funding, including banks and bond market. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. As of 30 June 2023, the Company has obtained total bank credit facilities of RMB7.5 billion, with an undrawn amount of RMB1.5 billion. The Company also has a good track record for fund-raising activities in domestic capital market. For example, in 2022, the Company raised RMB2.4 billion from onshore bonds, with coupon rates ranging from 3.27% to 3.58%. As of 30 June 2023, the Company's exposure to non-standard financing generally controllable, accounting for 15%-20% of the total debt. The average financing cost of the Company's non-standard financing was around 5.3%.

Medium level of contingent risk

JDBZ's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company had outstanding external guarantees of RMB4.1

billion, accounting for 66% of its net assets. All the external debt guarantees were provided to local state-owned companies. However, if a credit event occurs in Haimen District, it may lead to large-scale cross-effects. However, we estimate most of these local SOEs are likely to be supported by the local government when necessary, so that contingent risk would be controllable.

ESG Considerations

JDBZ 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.

JDBZ bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Linjiang New Area. 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.

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

Structural Consideration

JDBZ'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 strategic importance in the development of Linjiang New Area of Haimen District, 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).

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.

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