

## Credit Opinion

7 November 2023

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

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## Jining High Tech Urban Construction Investment Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Jining High Tech Urban Construction Investment Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Jining High Tech Urban Construction Investment Co., Ltd. (“JHUC” or the “Company”) reflects Jining High-tech Zone Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Jining High-tech Zone Government’s capacity to provide support reflects its status as a national-level high-tech industrial development zone, as well as the local government’s good economic strength and moderate fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction in Jining High-tech Zone; (2) good track record of receiving government payments; and (3) good access to funding from banks and the bond market.

However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) moderate debt growth and weak asset liquidity; and (3) high contingent liability risk.

The stable outlook on JHUC’s rating reflects our expectation that the Jining High-tech Zone government’s capacity to provide support will be stable, and that the Company will maintain its important role in Jining High-tech Zone’s infrastructure construction and shantytown renovation projects over the next 12 to 18 months.

## Rating Drivers

- Important role in infrastructure construction in Jining High-tech Zone
- Good track record of receiving government payments
- Medium exposure to commercial activities
- Good access to funding from banks and the bond market
- Moderate debt growth and weak asset liquidity
- High contingent liability risk

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Jining High-tech Zone Government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management and asset quality and reduction in exposure to external guarantees.

### What could downgrade the rating?

The rating could be downgraded if (1) Jining High-tech Zone Government's capacity 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 strategic significance or weakened financing capabilities.

## Key Indicators

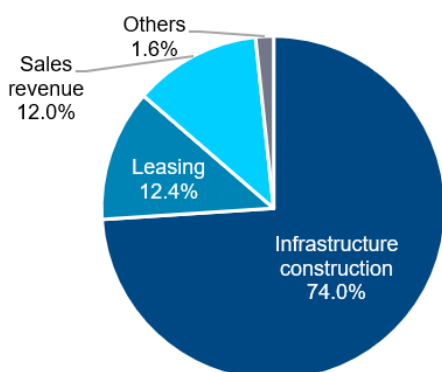
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	18.4	19.7	24.3	23.8
Total Equity (RMB billion)	9.7	10.0	10.3	10.4
Total Revenue (RMB billion)	1.7	1.3	1.4	0.8
Total Debt/Total Capital (%)	40.8	42.9	57.6	56.5

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

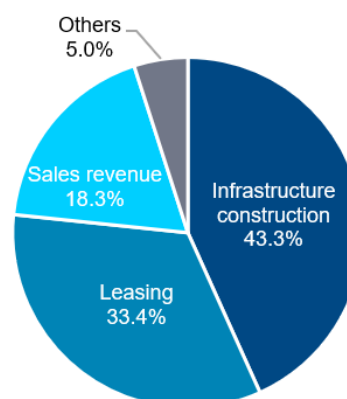
Source: Company information, CCXAP research

## Corporate Profile

Jointly founded by Jining High-tech Zone Land Reserve Management Center and Jining High-tech Industrial Development Zone Property Management Center in 2008, JHUC is an important local infrastructure investment and financing company ("LIIFC") in Jining High-tech Zone, mainly responsible for undertaking major infrastructure construction and shantytown renovation projects in the Zone. It is also involved in commercial businesses including property development and leasing. After the share transfer in 2009, the Company has become a wholly-owned subsidiary of Jining High-tech Holding Group Co., Ltd. ("JHHG"). As of 30 June 2023, its ultimate controlling shareholder was the State-owned Capital Management Office of Jining High-tech Zone ("Jining High-tech Zone SCMO").

**Exhibit 1. Revenue structure in 2022**

Source: Company information, CCXAP research

**Exhibit 2. Gross profit structure in 2022****Exhibit 3. Shareholding chart as of 30 June 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the local government of the Jining High-tech Zone has strong capacity to provide support for the Company, given its good economic fundamentals and moderate fiscal strength.

Shandong Province is the third largest province in terms of gross regional product ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding and marine technology, chemical, automotive and agri-food. Located in the southern part of Shandong Province, Jining city is one of the central cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Thanks to its diversified industrial structure such as coal mining, machinery and equipment manufacturing, paper and paper products, chemical industry goods, and textiles, Jining City's economic strength and fiscal strength steadily improved over the past three years. In 2022, it reported a GRP of RMB531.7 billion, representing 4.4% year-over-year ("YoY") growth, ranking sixth among all prefecture-level cities in Shandong province. The general budgetary revenue was recorded at RMB44.8 billion in 2022. However, the Jining Municipal Government has moderate fiscal strength and debt profile. The Jining Municipal Government's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 60% over the past three years. Tax income decreased to RMB30.2 billion in 2022 from RMB33.2 billion in 2021 because of the tax refund policy, accounting for around 67.4% of its general budgetary revenue. As of 31 December 2022, its government debt to GRP ratio was 28.5%.

**Exhibit 3. Key economic and fiscal indicators of Jining City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	449.4	507.0	531.7
GRP Growth (%)	3.6	8.5	4.4
General Budgetary Revenue (RMB billion)	41.2	44.0	44.8
General Budgetary Expenditure (RMB billion)	69.6	72.7	74.7
Local Government Debt (RMB billion)	109.5	134.5	151.4

Source: Statistics Bureau of Jining City, CCXAP research

Jining High-tech Zone was founded in 1992 and was promoted as a national high-tech industrial development zone in 2010. It is the pilot high-tech zone of national science and technology innovation service system, as well as innovative industrial cluster. It is also the pilot scientific and technological high-tech zone in Shandong Province, with a total area of 255 square kilometers. It has established four national industrial bases, including engineering machinery, photoelectric information, biotechnology, and new textile materials. Jining High-tech Zone has reported a steady economic growth. In 2022, the GRP of the Jining High-tech Zone increased by 4.7% YoY to RMB55.4 billion, accounting for around 10% of Jining City's GRP, ranking fourth among all districts and counties in Jining City. Its general budgetary revenue recorded RMB4.3 billion in 2022, of which tax revenue, a relatively stable income source, represented 79.9%. Jining High-tech Zone has good financial self-sufficiency with fiscal balance ratios above 150% over the past three years. As of 31 December 2022, its government debt to GRP ratio was 19.5%.

**Exhibit 4. Key economic and fiscal indicators of the Jining High-tech Zone**

	2020FY	2021FY	2022FY
GRP (RMB billion)	45.5	53.2	55.4
GRP Growth (%)	4.1	9.1	4.7
General Budgetary Revenue (RMB billion)	4.0	4.3	4.3
General Budgetary Expenditure (RMB billion)	2.6	2.7	2.8
Local Government Debt (RMB billion)	7.6	9.2	10.8

Source: Statistics Bureau of Jining High-tech Zone, CCXAP research

**Government's Willingness to Provide Support****Important role in infrastructure construction in Jining High-tech Zone**

JHHG, JHUC's parent company, is the largest and most important LIIFC in Jining High-tech Zone, responsible for the development and operation of Jining High-tech Zone such as infrastructure construction and heat provision. As an important infrastructure construction arm of JHHG, the Company is mainly responsible for the infrastructure construction in Jining High-tech Zone, including the construction or upgrade of educational buildings, hospitals, road reconstructions, and shantytown renovations in the Zone. As of 31 March 2023, it has completed 24 infrastructure projects, with a total investment of RMB7.7 billion. Given its important role in local infrastructure construction, we believe that the Company is unlikely to be replaced in the foreseeable future.

Authorized by Jining High-tech Zone Management Committee, the Company undertakes infrastructure projects in Jining High-tech Zone under the agency construction model. The initial fund is borne by the Company, and the Company will receive payments based on the actual construction costs plus a markup upon completion, generally 15%. With the ongoing development of Jining High-tech Zone, the Company is currently focusing on undertaking shantytown renovation projects. Some of these projects are undertaken by signing a government-

purchase service agreement with the local government. The local government will make instalment payments within 15 years after the completion. As of 31 March 2023, the Company had 7 shantytown renovation projects under construction, with an estimated total investment of RMB13.1 billion and an uninvested amount of RMB7.9 billion. Large-scale projects in the pipelines will ensure the sustainability of the business.

In addition, the Company has transferred land use rights to local enterprises. However, with the downturn of the local land market, the land transfer business had been on a downward trend in recent years. There is no land transfer in 2022. In 2021, the Company only transferred one land parcel, with land transfer income of RMB28.4 million, compared with four land parcels with RMB281.7 million in 2020. Since the land transfer business is largely susceptible to the local land market and government development plans, we consider the stability of the business to be relatively weak.

### **Good track record of receiving government payments**

JHUC has a proven track record of receiving government payments in the form of capital injections, asset transfers, project payments, and subsidies. After several capital injections, the registered capital of the Company has increased from RMB200 million at the time of establishment to RMB470 million as of 30 June 2023. In 2021, Jining High-tech Zone SCMO injected project capital of RMB136 million to the Company. JHUC also has a good track record of receiving government payments. From 2020 to 2023H1, the Company continuously received government subsidies with a total amount of around RMB589.7 million to support its infrastructure construction and leasing businesses. The Company is also expected to receive payments from the local government for its settled agency construction projects. From 2020 to 2023H1, the Company has received total project repayments of RMB4.4 billion for its completed infrastructure projects. We expect the local government will continue to provide support to the Company, given its strong public policy role in Jining High-tech Zone and the large number of public projects under construction.

### **Medium exposure to commercial activities**

JHUC's main commercial activities include property leasing and property development businesses. The Company's exposure to commercial activities accounted for more than 30% of its total assets. However, according to our assessment, the Company's risk exposure to commercial activities is considered medium, as the leasing business can provide stable supplemental income to the Company, while the scale of the property development business is small.

JHUC has high-quality leasing assets which provides additional recurring income. The Company's leasing business involves the leasing of research base buildings, industrial parks, logistics parks, commercial buildings, and sewage treatment facilities to governmental organs and local enterprises, with a total leasable area of around 269.0 thousand square meters. All of the leasing assets have been leased out, generating around RMB170 million leasing income per year. As of 31 March 2023, the Company had 5 leasing projects under construction, with an estimated total investment of RMB6.1 billion and an uninvested amount of RMB2.0 billion, exerting certain capital expenditure pressure on the Company.

The Company's property development business involves the sale of a residential property projects. As of 31 March 2023, the Company had one property project under construction, with a total investment of RMB1.2 billion, and the future investment need is small. We consider its business risk is manageable, as the investment for construction projects is almost completed, most of the properties have been sold, and no construction projects are planned.

### **Moderate debt growth and weak asset liquidity**

Due to the continuous investment in infrastructure construction projects, JHUC has shown moderate debt growth over the past three years. As of 30 June 2023, the Company's total debts increased to RMB9.2 billion from RMB7.9 billion as of 30 June 2022. Its total capitalization ratio, as measured by total debt to total capital, was recorded at 47.0% as of the same date. As of 30 June 2023, the ratio of short-term debts to total debts has decreased to 18.5%, indicating an improved debt structure. However, the unrestricted cash to short-term debt is relatively low at 0.1x as of the same date, indicating certain short-term debt pressure. Given the substantial funding requirements of the leasing and the shantytown renovation projects, we expect its debt growth to remain moderate.

In addition, JHUC's asset liquidity is weak. As of 30 June 2023, the Company has a large number of restricted assets such as land, office buildings, and industrial plants, totaling RMB5.8 billion and accounting for around 24.3% of the total assets and 55.8% of net assets. The large amount of restricted assets may undermine the Company's financing flexibility. At the same time, JHUC's inventory, other receivables and construction in progress accounted for 75% of the total assets. The Company's inventories mainly include costs of construction projects, and construction in progress are mainly industrial parks under construction, which we believe have low liquidity.

### **Good access to funding from banks and the bond market**

JHUC has access to multiple financing channels, including bank loans and bond issuances. The Company has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. As of 30 June 2023, the Company had obtained total bank credit facilities of RMB9.3 billion, with an unused portion of RMB3.6 billion, indicating a relatively sufficient liquidity buffer. The Company also has a good track record for fund-raising activities in capital market, around half of the debt financing was provided by bond issuances. From January to September 2023, the Company issued 3 tranches of medium-term notes and corporate bonds, raising RMB1.8 billion. The Company also has access to offshore financing channels and raised USD282 million in 2020. However, the company's relatively high reliance on direct financing may cause the refinancing stability of the Company to be easily affected by the fluctuations in capital market. In addition, the Company's reliance on non-standard financing is low, accounting for less than 5% of its total debt.

### **High contingent liability risk**

JHUC's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company's external guarantee slightly decreased to RMB5.2 billion from RMB5.6 billion as of mid-2022, accounting for 50.2% of its net assets. Although all of the guaranteed companies are state-owned enterprises in Jining High-tech Zone with stable operations, the Company may face considerable contingent liability risk should a default event occurs, which could negatively impact its credit quality.

## **ESG Considerations**

JHUC faces environmental risks through its infrastructure and shantytown projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects, as well as close supervision during construction.

JHUC bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Jining High-tech Zone. 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.

JHUC's governance considerations are also material as the Company is subject to local government oversight by Jining High-tech Zone SCMO 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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