

Credit Opinion

18 December 2023

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

Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

christy_liu@ccxap.com

Jessica Cao +852-2860 7139

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

Jinan Economic Development Investment Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jinan Economic Development Investment Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Jinan Economic Development Investment Co., Ltd. ("JEDI" or the "Company") reflects Jiyang District Government's (1) relatively strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Jiyang District Government's capacity to provide support reflects its ongoing integration into the economic development of Jinan City, and its relatively good fiscal stability.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) close linkage with the local government; (2) key strategic role in the infrastructure construction of Jiyang District; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) moderate access to funding.

The stable outlook on JEDI's rating reflects our expectation that Jiyang District Government's capacity to provide support will be stable, and the Company's characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Key strategic role in the infrastructure construction of Jiyang District
- Medium exposure to commercial activities
- Solid track record of receiving government payments
- Increasing debt burden driven by large investment needs
- Moderate access to funding
- Certain exposure to contingent liability risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jiyang District Government's capacity 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 materially lowering exposure to risk commercial activities or improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Jiyang District 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 decreased government payments.

Key Indicators

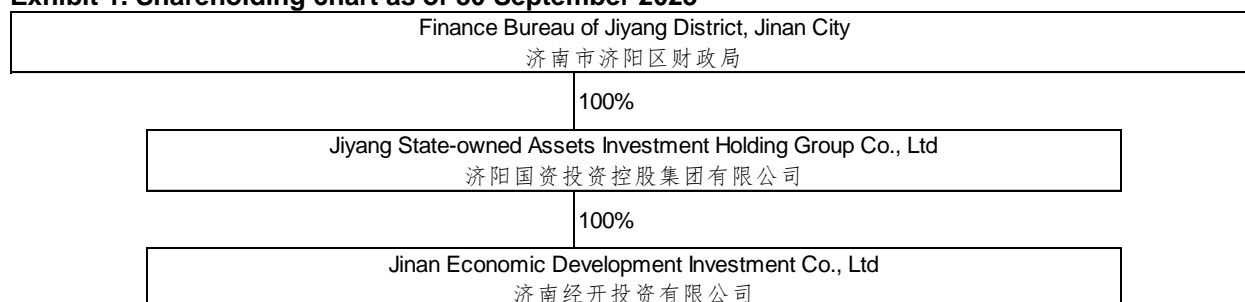
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	5.8	15.3	24.7	25.3
Total Equity (RMB billion)	2.0	9.7	11.1	11.6
Total Revenue (RMB billion)	2.3	4.0	4.4	3.6
Total Debt/Total Capital (%)	47.3	29.1	37.3	44.1

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

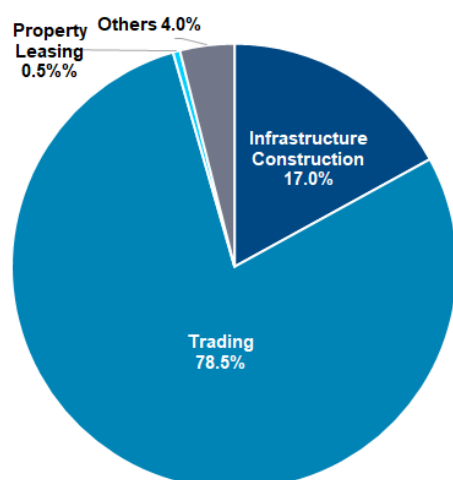
Source: Company data, CCXAP research

Corporate Profile

Founded in 2012, JEDI is one of the major investment and financing platforms in Jiyang District, Jinan City. As a wholly-owned subsidiary of Jiyang State-owned Assets Investment Holding Group Co., Ltd. ("JSAI"), the largest infrastructure investment and financing entity in Jiyang District, the Company is mainly engaged in infrastructure construction, primary land consolidation, resettlement housing development, and commodity trading in Jiyang District. As of 30 September 2023, the Company was wholly and directly held by JSAI, and the Finance Bureau of Jiyang District was the ultimate controlling shareholder of the Company.

Exhibit 1. Shareholding chart as of 30 September 2023

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 the local government of Jiyang District has a relatively strong capacity to provide support given its ongoing integration into the economic development of Jinan City, and its relatively good fiscal stability.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Jinan City is a sub-provincial city, the capital city of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1.0 trillion over the past three years. Over the same period, Jinan City ranked 9th by GRP among 15 sub-provincial cities in China and ranked 2nd among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2020 to 2022, its general budgetary revenue increased from RMB90.6 billion to RMB100.0 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of 75.9%. As of 31 December 2022, the local government's outstanding debt amounted to RMB266.0 billion, accounting for 22.1% of GRP. In the first three quarters of 2023, Jinan City's GRP amounted to RMB922.9 billion, representing a year-on-year("YoY") growth rate of 6.2%.

Exhibit 3. Key Economic and Fiscal Indicators of Jinan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,014.1	1,143.2	1,202.8
GRP Growth (%)	4.9	7.2	3.1
General Budgetary Revenue (RMB billion)	90.6	100.8	100.0
General Budgetary Expenditure (RMB billion)	128.8	129.3	126.0
Local Government Debt (RMB billion)	168.3	212.0	266.0

Source: Statistics Bureau of Jinan City, CCXAP research

As a suburb of Jinan City, Jiyang District is located in the southern part of the Northwest Plain of Shandong Province. On 19 June 2018, the State Council approved the establishment of Jiyang District from Jiyang County and kept the same administrative area, with a total planned area of approximately 1,076 square kilometers. Since 2021, Jiyang District has actively integrated into the Jinan Start-up Area for Growth Drivers Transformation, which will further enhance its urbanization and infrastructure development.

In recent years, the economic strength of Jiyang District has continued to increase, but shown slower growth due to the resurgence of the pandemic. The GRP of Jiyang District increased by 3.2% YoY to RMB23.7 billion in 2022. However, Jiyang District's fiscal stability is relatively good. In 2022, Jiyang District recorded general budgetary revenue of RMB2.4 billion, 73.9% of which came from tax income. In addition, it had a modest fiscal balance as its general budgetary revenue covered around 64.9% of general budgetary expenditure in 2022. As of 31 December 2022, Jiyang District's outstanding governmental debt amounted to RMB7.0 billion, accounting for 29.5% of its GRP. In the first three quarters of 2023, Jiyang District's GRP was RMB17.6 billion, a YoY increase of 6.8%, ranking 3rd among all districts and counties in Jinan City.

Exhibit 4. Key Economic and Fiscal Indicators of the Jiyang District

	2020FY	2021FY	2022FY
GRP (RMB billion)	20.6	22.4	23.7
GRP Growth (%)	3.1	2.6	3.2
General Budgetary Revenue (RMB billion)	2.8	2.7	2.4
General Budgetary Expenditure (RMB billion)	4.8	4.8	3.6
Local Government Debt (RMB billion)	5.2	6.4	7.0

Source: Statistics Bureau of Jiyang District, CCXAP research

Government's Willingness to Provide Support**Key strategic role in infrastructure construction of Jiyang District**

JEDI is a key state-owned investment and financing entity in Jiyang District to implement government blueprint of local urbanization and infrastructure development. The Company has undertaken a number of municipal infrastructure construction, land consolidation, resettlement housing construction projects, and provided heat supply service in the region. We believe that the Company will maintain an important position in the public policy projects in Jiyang District and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Commissioned by the Finance Bureau of Jiyang District, JEDI undertakes infrastructure construction and primary land consolidation projects in Jiyang District under the agency construction model. As of 30 September 2023, the Company had completed 4 major infrastructure construction projects in Jiyang District, including resettlement housing and road construction, with a total investment of approximately RMB1.3 billion. Meanwhile,

the Company had 2 infrastructure construction projects under construction, with a planned investment of RMB3.4 billion and an uninvested amount of RMB502.9 million. One of the projects under construction, Fuyang Jiayuan resettlement housing project, consists of two construction phases. The Company has entered into a purchase agreement with the relevant government authorities for the first phase of the Fuyang Jiayuan project. However, there is still no purchase agreement for the second phase of the project, which may lead to uncertainties regarding the settlement of the project. As of 30 September 2023, the Company also had one proposed primary land consolidation project with a total planned investment of RMB1.8 billion.

Medium exposure to commercial activities

Apart from public-related activities, JEDI also engages in several commercial activities, mainly including construction of self-operated projects and trading. We consider JEDI's commercial business exposure to be medium, accounting for around 15% of its total assets. However, we expect that the commercial business risk is manageable, as most of the self-operated projects are key projects in Jiyang District, developed under the guidance of the local government to promote industrial and social development.

The Company conducts self-built and self-operated projects through self-raised funds, which put great pressure on its capital expenditures. As of 30 September 2023, the Company had 4 self-built and self-operated projects under construction, with a total estimated investment of RMB4.2 billion and an uninvested amount of approximately RMB1.8 billion. These projects included commercial and residential properties, and bio-pharmaceutical bases, which will be leased or sold upon completion to cover the construction cost. The Company is expected to continue to require significant capital expenditure to build and operate self-constructed projects in the future.

Trading business still is the main income source of JEDI. In 2022, the Company recognized trading revenue of RMB3.5 billion, accounting for 78.6% of the total revenue. The Company has continued to diversify its product mix, which mainly includes steel, concrete, household appliances and power distribution control equipment. The Company's concentration risk of upstream suppliers is moderate in 2022 and is decreasing from last year, the top five suppliers accounted for 43.9% of the total procurement. Moreover, the Company has relatively strict internal control over the selection of suppliers and customers, such as dual diligence investigation and risk analysis on potential suppliers and customer.

Solid track record of receiving government payments

JEDI has a proven track record of receiving support from the local government and its parent company in terms of capital injections, construction project payments and subsidies. In August 2021, JSAI transferred the equity interests of several state-owned enterprises and a land consolidation project to the Company, which enhanced its capital strength and broadened its business mix. After the asset transfer, the Company has continued to receive capital injections from its parent company. In 2022, the Company received a capital injection in cash of RMB1.2 billion from its parent company, increasing its paid-in capital to around RMB2.0 billion. As of 30 September 2023, the Company's capital reserve also increased to around RMB9.0 billion from RMB8.4 billion as of end-2021.

Furthermore, the Company has signed agreements for its public policy projects with the local government, which ensures the predictability of the project payments. As of 30 September 2023, the Company had received project payments for infrastructure construction and land consolidation of around RMB3.9 billion. JEDI also received continuous operating subsidies from the local government from 2020 to 2022, with a total amount of around

RMB446.4 million. We believe that, given the important position of JEDI and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

Increasing debt burden driven by large investment needs

Due to the ongoing investments for the infrastructure construction and primary land consolidation projects, JEDI's total debt has continued to increase since 2021. As of 30 September 2023, the Company's total debt increased to RMB9.2 billion from RMB4.0 billion as of end-2021, while the total capitalization ratio increased to 44.1% from 29.1%. As of 30 September 2023, the Company's short-term debt accounted for 64.7% of the total debt, and cash to short-term debt ratio was around 0.3x, indicating high short-term repayment pressure. However, around half of the short-term debt can be rolled over in 2024, partially reducing short-term repayment pressure of the Company. Considering the Company may continue to rely on external financing for its investment needs for public policy projects and commercial activities projects under construction, its total debt burden is expected to further increase over the next 12-18 months.

Moderate access to funding

JEDI shows moderate access to funding, as it mainly relies on bank loans and non-standard financing. The Company has long-term relationships with various major domestic banks, including major state-owned commercial banks and joint-stock commercial banks such as Industrial and Commercial Bank of China Limited and Qilu Bank Co., Ltd. Meanwhile, due to the important role JEDI has played in local development, the Company has also received project loans from policy banks, such as China Development Bank and Agricultural Development Bank of China. The credit facilities granted by these policy banks accounted for more than 40% of the Company's total credit facilities. As of 30 September 2023, the Company had total credit facilities of RMB4.8 billion, with the available portion being RMB673.5 million, indicating modest standby liquidity. The Company also has a moderate exposure to non-standard financing, which accounts for more than 20% of total debt. However, the Company has actively broadened its financing channels. In 2022, it tapped into the offshore bond market for the first time through a successful issuance of EUR48 million. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities, and issuing offshore bonds and even onshore bonds.

Certain exposure to contingent liability risk

JEDI has certain exposure to external guarantees. As of 30 September 2023, the total amount of the Company's external guarantee was RMB1.5 billion, accounting for 12.5% of its net assets. However, all the external guarantees are provided to local state-owned enterprises in Jiyang District such as JSAI and its affiliates. Due to the concentration of the guaranteed enterprises, the Company may face certain contingent liability risks when a default event occurs in Jiyang District, which could lead to large-scale cross-effects and negatively impact its credit quality.

ESG Considerations

JEDI assumes environmental risks through its infrastructure construction and primary land development projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social concerns, JEDI plays a crucial role in the social well-being of the residents in Jiyang District by undertaking urban infrastructure construction projects and engaging in heat supply business.

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

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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