

Credit Opinion

20 December 2023

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

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Jiangshan Urban Construction Investment Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jiangshan Urban Construction Investment Co., Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangshan Urban Construction Investment Co., Ltd. (“JUCI” or the “Company”) reflects Jiangshan City Government’s (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Jiangshan City Government’s capacity to provide support reflects Jiangshan City’s status as the second largest district/county by gross regional product (“GRP”) in Quzhou City, with ongoing economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy role in provision of public activities in Jiangshan City; and (2) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) moderate exposure to commercial business activities; and (2) fast debt growth and moderate asset liquidity.

The stable outlook on JUCI’s rating reflects our expectation that Jiangshan City Government’s capacity to provide support will remain stable, and the Company will maintain its vital position in Jiangshan City.

Rating Drivers

- Important policy role in provision of public activities in Jiangshan City
- Moderate exposure to commercial business activities
- Fast debt growth and moderate asset liquidity
- Low reliance on non-standard financing
- Good track record of receiving government payments

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jiangshan City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as a substantial reduction in commercial activities or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Jiangshan City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a reduction in the importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	7.4	10.3	14.5	19.0
Total Equity (RMB billion)	4.7	5.4	6.7	7.5
Total Revenue (RMB billion)	0.5	0.8	1.0	0.3
Total Debt/Total Capital (%)	23.7	39.3	46.8	53.4

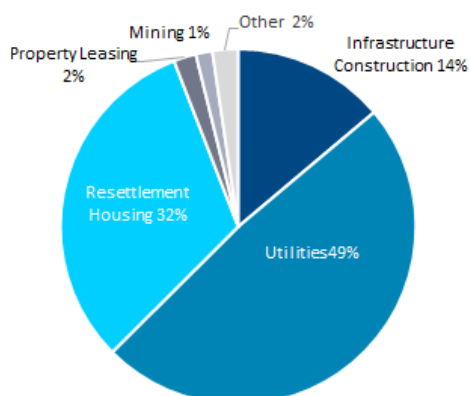
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Established in 2018, JUCI is one of the key local infrastructure investment and financing companies ("LIIFC") in Jiangshan City, Quzhou City. As the main operator and developer in Jiangshan City, the Company engages in diversified businesses, including public businesses such as infrastructure construction, land consolidation, resettlement housing, and utilities businesses including water, electricity and gas supply, as well as commercial businesses such as mining, and property leasing. As of 30 September 2023, the Company was directly and wholly owned by Jiangshan State-owned Assets Management Co., Ltd., which in turn was ultimately controlled by Finance Bureau of Jiangshan City.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholder structure as of 30 September 2023



Source: Company information

Rating Considerations

Government's Capacity to Provide Support

We believe the Jiangshan City Government has a relatively strong capacity to provide support, based on its status as the second largest district/county by GRP in Quzhou City, with ongoing economic growth and good fiscal stability.

Located in the western part of Zhejiang Province, Quzhou City has a good transportation network, connecting the four provinces of Fujian, Zhejiang, Jiangxi, and Anhui. It also has abundant resources, including mineral resources, human resources and ecological resources. The pillar industries in Quzhou City include chemicals, machinery, cement, papermaking, and food processing. With the ongoing industrial development, the economic strength of Quzhou City has grown at a fast pace. In 2022, the GRP of Quzhou City increased by 4.8% year-on-year ("YoY") to RMB200.3 billion, and its general budgetary revenue increased by 5.6% YoY to RMB17.3 billion. It has a good fiscal stability with tax income contributions of over 80% to the general budgetary revenue over the past three years. However, its fiscal balance is relatively weak with general budgetary revenue/general budgetary expenditure ratio of 30.5%. The local government relies on fiscal support from higher-tier governments and proceeds from land sales to balance its fiscal budget. As of 31 December 2022, the outstanding government debt amounted to RMB86.4 billion, accounting for 43.1% of its GRP. In the first nine

months of 2023, Quzhou City recorded a GRP of RMB153.2 billion, with a YoY growth rate of 7.7%; while its general budgetary revenue increased by 15.1% YoY to RMB7.8 billion.

Exhibit 3. Key economic and fiscal indicators of Quzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	163.9	187.6	200.3
GRP Growth (%)	3.5	8.7	4.8
General Budgetary Revenue (RMB billion)	14.1	16.4	17.3
General Budgetary Expenditure (RMB billion)	46.0	51.8	56.8
Local Government Debt (RMB billion)	60.6	72.0	86.4

Source: Statistic Bureau of Quzhou City, CCXAP research

Jiangshan City is a county-level city under the administration of Quzhou City that borders Zhejiang, Fujian, and Jiangxi provinces. It has abundant forest resources, with about 70% of the land in the region covered in thick forest, as well as tourism resources, with one 5A-level attraction, four 4A-level attractions, and 12 3A-level attractions. Supported by the ongoing development of its pillar industries such as door industry and equipment manufacturing industry, Jiangshan City has fast economic growth. The GRP of Jiangshan City increased by 4.6% YoY to RMB38.1 billion, ranking the second in Quzhou City. It maintained a good fiscal stability. In 2022, the general budgetary revenue amounted to RMB2.9 billion, ranking the first in Quzhou City, of which 82.7% was generated from tax income. However, its fiscal balance is relatively weak with a general budgetary revenue/general budgetary expenditure ratio of 32.9% in 2022, indicating high reliance on support from high tier government and local land transfer market. The Jiangshan City Government's outstanding debt increased to RMB12.7 billion in 2022, accounting for 32.9% of its GRP. In the first nine months of 2023, Jiangshan City recorded a GRP of RMB28.2 billion, with a YoY growth rate of 7.2%.

Exhibit 4. Key economic and fiscal indicators of Jiangshan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	31.3	36.6	38.1
GRP Growth (%)	1.6	8.5	4.6
General Budgetary Revenue (RMB billion)	2.1	2.6	2.9
General Budgetary Expenditure (RMB billion)	7.2	8.3	8.8
Local Government Debt (RMB billion)	8.9	11.1	12.7

Source: Statistic Bureau of Jiangshan City, CCXAP research

Government's Willingness to Provide Support

Important policy role in provision of public activities in Jiangshan City

As the major LIIFC in Jiangshan City, JUCI's main businesses are closely related to the economic and social development of the region, ranging from infrastructure construction, land consolidation, resettlement housing to utility services such as the provision of water, electricity and gas. It plays an important role in the urban planning and municipal construction works of the Jiangshan City Government. Given that JUCI owns a large number of infrastructure and utility assets in Jiangshan City, we believe that the cost of replacing the Company is high and its risk of substitution is low.

JUCI is the main entity for land consolidation in the urban areas of Jiangshan City, and responsible for the land acquisition, demolition and levelling. However, such business highly relies on the local land market and government plans, resulting in a degree of uncertainty to the Company's land transfer income. The Company also undertakes resettlement housing projects, offering houses to residents affected by the land consolidation. As of 30 September 2023, the Company had 3 key resettlement housing projects under construction, with a planned investment of RMB7.0 billion and an uninvested amount of RMB5.2 billion. Such land consolidation and resettlement housing projects conducted by the Company are mainly related to urban renewal plans, with the purpose of urban upgrading and improvement of people's livelihood.

JUCI continues to undertake the infrastructure construction business under agency construction model with self-raised funds and government bond funds. The business scope is mainly concentrated in the urban area of Jiangshan City. As of 30 September 2023, the Company had 9 major infrastructure construction projects under construction or planning, with a planned investment of RMB2.2 billion and an uninvested amount of RMB1.4 billion.

Supported by its strong shareholder background, JUCI has a regional advantage in the provision of utility services such as water supply, sewage treatment, electricity and gas supply in the whole Jiangshan City. As of 30 September 2023, the Company had 2 water plants with a daily water capacity of 155 thousand cubic meters, and 1 sewage treatment plant with a daily sewage treatment of 60 thousand cubic meters. The Company's gas business has a monopoly position as the sole gas supply entity in the region.

Moderate exposure to commercial business activities

JUCI also engages in commercial business activities, including mining, property leasing and photovoltaic ("PV") power generation, which generate supplementary revenue to the Company. We estimate that JUCI had moderate commercial exposure, with the assets of commercial businesses accounting for around 10% of its total assets. Given the Company's plan to develop different kinds of commercial business, the exposure to commercial business is expected to increase gradually.

JUCI is engaged in mining business through acquiring two limestone mines with total reserves of around 40 million tons. However, the mining business is still at the construction stage, resulting in gross losses in 2022. In addition, the Company rents out its self-owned properties such as rental housing, stores, and offices, providing stable income. In 2022, the revenue from property leasing amounted to RMB20.1 million, with a gross profit margin of 4.4%.

The Company also engages in PV power generation business, focusing on installation of PV system on the rooftop of schools and government buildings. Despite its small scale, the exposure to PV power generation business is expected to increase as the Company plans to invest in ground PV projects, which needs larger investment. In addition, the Company has entered into commercial property development business since 2022, which may expose it to higher business risk given the downturn of the property market.

Fast debt growth and moderate asset liquidity

JUCI has moderate debt management with fast debt growth mainly because of ongoing investment in public activities. The Company's total debts increased from RMB5.6 billion at mid-2022 to RMB8.6 billion as of 30 September 2023, while its total capitalization ratio increased from 50.9% to 53.4% over the same period. In addition, the Company has an increasing short-term debt repayment pressure. The proportion of short-term debts to total debt increased from 26.6% at mid-2022 to 33.9% as of 30 September 2023. Given its sizable

future investment in public activities, we expect the Company's debt leverage will maintain at a relatively high level in the next 12 to 18 months.

In addition, JUCI has moderate asset liquidity, which may undermine its financial flexibility. As of 30 September 2023, the Company's inventories accounted for 57.2% of total assets, mainly consisting of land use right and costs from the public projects; its non-current assets accounted for 27.0% of total assets, mainly comprised of intangible assets, and investment properties.

Low reliance on non-standard financing

JUCI's funding sources are mainly bank loans and bond issuance and government bond funding can fulfil the investment needs for its public and commercial activities. The Company maintains a good relationship with a variety of commercial and policy banks, such as the Agricultural Development Bank of China and the Bank of China. As of 30 September 2023, the Company's total credit facilities were RMB11.3 billion, of which the unutilized amount was about RMB2.0 billion. The Company also has access to the onshore bond market. In 2022, it raised RMB600 million via issuance of a corporate bond, with a coupon rate of 4.58%. Its reliance on non-standard financing is low, accounting for less than 10% of total debts as of 30 September 2023. Furthermore, the Company plans to issue offshore bond to further expand its funding channel.

Good track record of receiving government payments

JUCI has a good track record of receiving payments from the local government in terms of capital injections, asset injections, financial subsidies and project proceeds for infrastructure construction and land consolidation projects. From 2022 to 2023Q3, the local government injected capital of about RMB2.1 billion to the Company, mainly investment properties, and equity interests of other state-owned enterprises in Jiangshan City, significantly enhancing its capital strength. The local government consistently provides subsidies to the Company to support its operation, with a total amount of RMB157.3 million over the same period. JUCI also receives project proceeds for the infrastructure construction and land consolidation projects according to the contracts signed with the local government after the settlement procedure of the projects. Considering JUCI's important position and tight relationship with the local government, we expect the local government will continue to support JUCI by providing payments over the next 12 to 18 months.

ESG Considerations

JUCI is exposed to environmental risks because it has undertaken infrastructure construction and utility projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

The Company is also exposed to social risks as a public services provider in Jiangshan City. Demographic changes, public awareness and social priorities shape government's target for JUCI, or affect the government's propensity to support the Company.

JUCI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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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