

Credit Opinion

20 December 2023

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

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Jonathan Kwong +852-2860 7132
Credit Analyst
jonathan_kwong@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

Nanchang Jinkai Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Nanchang Jinkai Group Co., Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Summary

The BBB_g- long-term credit rating of Nanchang Jinkai Group Co., Ltd. ("NCJK" or the "Company") reflects the local government's (1) relatively strong capacity to provide support based on our assessment of Nanchang Economic and Technological Development Zone ("Nanchang ETDZ"); and (2) extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Nanchang ETDZ's status as the national-level ETDZ in Nanchang City, with increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) dominant role in the development of Nanchang ETDZ with sufficient public policy project reserves; (2) good track record of receiving recurring government payments; and (3) good access to funding.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increased debt burden and high short-term debt repayment pressure; and (3) moderate asset liquidity.

The stable outlook on NCJK's rating reflects our expectation that the local government's capacity to provide support will remain stable and that the Company will maintain a high strategic importance in the development of Nanchang ETDZ.

Rating Drivers

- Dominant role in the development of Nanchang ETDZ with sufficient public policy project reserves
- Good track record of receiving recurring government payments
- Medium exposure to commercial activities
- Increased debt burden and high short-term debt repayment pressure
- Moderate asset liquidity
- Good access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as reduced exposure to risky commercial activities, and improved debt management and asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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, decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	30.9	36.0	42.1	46.5
Total Equity (RMB billion)	10.5	13.5	16.3	17.4
Total Revenue (RMB billion)	2.3	2.6	3.0	2.3
Total Debt/Total Capital (%)	60.3	59.0	58.1	58.9

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

Source: CCXAP research

Corporate Profile

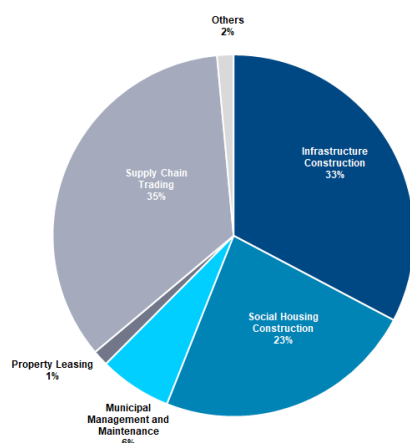
Founded in September 2015, NCJK is a key local infrastructure investment and financing company ("LIIFC") in Nanchang ETDZ, focusing on infrastructure construction and social housing construction. The Company plays a strategic role in the social, economic, and urban development of the region in accordance with the development blueprints of the local government, aiming to facilitate investment in and development of Nanchang ETDZ. It is also engaged in commercial activities such as supply chain trading, property leasing, and property development. As of 30 September 2023, the Management Committee of Nanchang ETDZ held 90% of the Company's shares, and was also the ultimate controller of the Company.

Exhibit 1. Shareholding and organization chart as of 30 September 2023



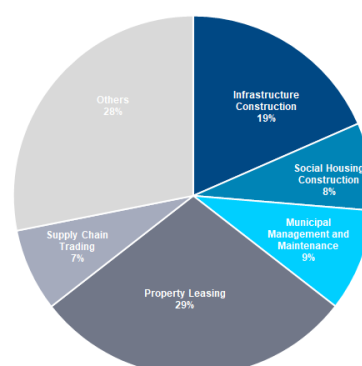
Source: Company information, CCXAP research

Exhibit 2. Revenue structure 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 local government of Nanchang ETZ has a relatively strong capacity to provide support for the Company, given its status as the national-level ETZ in Nanchang City, with ongoing economic growth and moderate fiscal metrics.

Nanchang City is a prefecture-level city located in the north of Jiangxi Province and the capital of Jiangxi Province. Nanchang City develops strategic emerging pillar industries such as automobiles and new energy vehicles, electronic information, biomedicine, and aviation equipment. It also develops advantageous industries such as green food, modern textiles, new materials, and electromechanical equipment manufacturing. In 2022, the GRP of Nanchang City increased by 4.1% year-on-year ("YoY") to RMB720.4 billion, ranking first among prefecture-level cities in Jiangxi Province. However, it has a modest fiscal balance, with 48.8% coverage of general budgetary revenue to general budgetary expenses in 2022. As of 31 December 2022, Nanchang City reported a government debt of RMB148.2 billion, accounting for 20.6% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Nanchang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	574.6	665.1	720.4
GRP Growth (%)	3.6	8.7	4.1
General Budgetary Revenue (RMB billion)	48.4	48.5	45.8
General Budgetary Expenditure (RMB billion)	83.8	87.0	93.9
Local Government Debt (RMB billion)	113.3	137.6	148.2

Source: Statistic Bureau of Nanchang City, CCXAP research

Nanchang ETDZ was established in 1992 and was approved as a national-level Economic and Technological Development Zone in 2000. It has formed five industrial pillars of electronic information, new energy automobile and parts, biomedicine, smart equipment manufacturing, and aviation. In 2022, Nanchang ETDZ recorded a GRP of RMB78.1 billion, representing YoY growth of 4.7%. Supported by sustained economic growth, the comprehensive strength of Nanchang ETDZ ranked 33st among more than 200 national-level ETDZs in China in 2022. Affected by the tax refund, the local government's general budgetary revenue slightly decreased from to RMB2.1 billion in 2021 to RMB1.9 billion in 2022. Nanchang ETDZ has a moderate fiscal balance. In 2022, its general budgetary revenue to general budgetary expenditure ratio was 55.2%. As of end-2022, the government debt balance of Nanchang ETDZ increased to RMB9.9 billion, accounting for 12.6% of the GRP.

Exhibit 5. Key economic and fiscal indicators of Nanchang ETDZ

	2020FY	2021FY	2022FY
GRP (RMB billion)	56.4	72.1	78.1
GRP Growth (%)	5.0	8.4	4.7
General Budgetary Revenue (RMB billion)	2.0	2.1	1.9
General Budgetary Expenditure (RMB billion)	3.9	3.9	3.5
Local Government Debt (RMB billion)	12.3	9.3	9.9

Source: Management Committee of Nanchang ETDZ, CCXAP research

Government's Willingness to Provide Support**Dominant role in the development of Nanchang ETDZ with sufficient public policy project reserves**

As the largest LIIFC in Nanchang ETDZ, NCJK has played a dominant role in undertaking public policy projects entrusted by the local government, including infrastructure construction, social housing construction, as well as municipal management and maintenance. It has made significant contributions to the municipal development and continuous urbanization of Nanchang ETDZ. In addition, the Company has sufficient public policy project reserves, indicating high business sustainability. We believe that with its strong policy mandate, the Company will undertake most of the public projects in Nanchang ETDZ, and will not be replaced by other state-owned enterprises in the foreseeable future.

NCJK carries out the key urban construction projects, which are broadly divided into infrastructure construction and social housing construction (including resettlement housing and affordable housing). NCJK continues to conduct urban construction business on agent construction basis. As of 30 September 2023, NCJK has sufficient project reserves, including 14 infrastructure projects and 4 social housing projects under construction or planning. The total investment was expected to be approximately RMB5.9 billion, with uninvested amount of RMB3.0 billion. The relatively large number of projects in the pipeline can ensure the sustainability of the business, but exert relatively high capital expenditure pressure on the Company.

In addition, NCJK conducts municipal management and maintenance business, such as sanitation and greening, with strong policy orientation. In recent years, this policy-driven business has achieved stable growth in business scale through the accumulation of projects, indicating that its policy function and importance in the management and maintenance of municipal facilities has continued to increase.

Medium exposure to commercial activities

NCJK is involved in commercial activities such as property leasing and management, property development, and supply chain trading. We estimate the Company's risk exposure to commercial activities to be moderate, as the majority of these commercial activities are related to the strategic development of the region.

NCJK is engaged in the property leasing and management business in Nanchang ETDZ, including leasing of industrial parks and factories, office buildings, and residential properties. Most of the properties are obtained through self-construction and government allocation. As of 30 September 2023, the Company had a total leasable area of 2.1 million square meters, with occupancy rate of about 70%. The property leasing and management business provides a stable income and good profit to the Company. In 2022, this business achieved revenue of RMB108 million, with a high gross profit margin of 64.6%. However, income from this business is subject to uncertainty as the lease progress is highly correlated to the local operating environment and development prospects. In addition, as of 30 September 2023, the Company had 3 key leasable property projects under construction, with a total estimated investment of RMB4.6 billion and an uninvested amount of RMB2.3 billion, further increasing the Company's capital pressure.

Moreover, NCJK continues to expand its supply chain trading business. In 2022, the revenue of the supply chain trading business achieved to RMB954.4 million, with a growth rate of 108.8%. The main products are building materials and the primary target customers are the construction companies participating in NCJK's urban construction projects. However, the Company's high reliance on its top 5 suppliers and customers may add to the uncertainties in this business. As of 30 September 2023, the top 5 suppliers and customers accounted for 70.2% and 73.0% of the total procurement and total sales, respectively. On top of that, although the supply chain trading business is one of the main contributors to revenue, its profitability is relatively low. In 2022, the revenue of supply chain trading business accounting for 31.9% of the total revenue, but the gross profit margin was as low as 1.9%.

Furthermore, NCJK has started property development since 2022, with one residential project under construction. During the sluggish period in China's property market, the future balance of funds in property development may suffer higher volatility due to the progress of project construction and sales. We believe that the increasing investment in property-related commercial activities will bring higher business and financial risks to the Company.

Good track record of receiving recurring government payments

The Company has a good track record of receiving support from the local government in terms of subsidies, special funds, assets, and capital injections. The size and record of these government payments suggest a propensity for the government to support NCJK. From 2022 to 2023Q3, the Company had received government subsidies and tax refunds of approximately RMB318 million in total to support its operations. During the same period, the local government injected a total of approximately RMB3.1 billion in cash and assets into the Company, continuously enhancing its capital strength. In addition, the Company also received special funds for its construction projects. From 2022 to 2023Q3, the Company had received special funds of approximately

RMB1.1 billion. Given the strategic role of NCJK in Nanchang ETDZ, we believe that the Company will continue to receive direct financial support from the local government.

Increased debt burden and high short-term debt repayment pressure

NCJK's total debt continues to grow due to ongoing financing for the construction projects. The Company's total debt increased from RMB22.1 billion at end-2022Q3 to RMB24.9 billion as of 30 September 2023, while its total capitalization ratio maintained at a relatively high level of 59% over the same period. In addition, the Company has high short-term debt repayment pressure as reflected by its relatively large short-term debts. As of 30 September 2023, the Company's short-term debt accounted for 49.4% of the total debt, indicating that its debt structure needs to be improved. Given the large capital needs from construction projects, we expect the debt leverage of the Company to remain at a relatively high level in the next 12 to 18 months.

Moderate asset quality

NCJK's asset quality is moderate, with may undermine the Company's financing flexibility. The Company's total assets mainly consist of less liquid assets such as total receivables (mainly unreceived project payments from the local government), inventories (mainly costs from urban construction projects), and investment properties (leased industrial parks and factories, office buildings, and residential properties), totally accounting for 71.2% of the Company's total assets as of 30 September 2023. Nevertheless, the large number of leasable properties can provide the Company with stable rental income.

Good access to funding

NCJK has good access to funding from banks and bond market, with overall financing cost of about 5.23%. The Company has established long-term borrowing relationships with policy banks and major state-owned banks in China, including China Construction Bank Corporation, Agricultural Development Bank of China, and Industrial and Commercial Bank of China Limited. The Company has sufficient stand-by liquidity. As of 30 September 2023, the Company had obtained total credit facilities of RMB29.0 billion, with available amount of RMB12.1 billion. In terms of direct financing, the Company continues to have good access to onshore bond market. From 2022 to September 2023, it had raised RMB4.9 billion from the onshore bond market, with an average financing cost of 4.68%. The Company's non-standard financing exposure is limited as it only accounted for less than 15% of total debts, including trusts and finance leases with acceptable costs. Given the Company's important position as the irreplaceable platform for social and economic development in Nanchang ETDZ, we expect NCJK to maintain good access to domestic bank loans and bond markets.

ESG Considerations

The Company is exposed to environmental risks as it undertakes construction tasks for infrastructure, social housing, industrial parks, and factories. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the start of the projects, and close monitoring during the construction phase. NCJK's key operations are in material compliance with currently applicable national and local environmental, health and safety laws and regulations.

In terms of social awareness, the Company has played a crucial role in the social welfare of Nanchang ETDZ by undertaking social housing and municipal road construction projects. Demographic changes, public awareness, and social priorities shape government's development strategy and will affect the government's propensity to support the Company.

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

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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