

Credit Opinion

22 December 2023

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

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Jiangsu Ruihai Investment Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jiangsu Ruihai Investment Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Jiangsu Ruihai Investment Holding Group Co., Ltd. (“JRIH” or the “Company”) reflects Hai’an City Government’s strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Hai’an City Government’s capacity to support reflects Hai’an City’s good economic strength as one of the largest county-level cities in Jiangsu Province, with a gross regional product (“GRP”) over RMB100 billion, while it has moderate fiscal metrics and debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) direct and full ownership by the Hai’an City Government; (2) high strategic role in land development and affordable housing in Hai’an City; and (3) limited exposure to commercial business.

However, the rating is constrained by the Company’s (1) increasing debt level with large investment needs in public projects; and (2) long public project payment period, subject to the government’s decision and fiscal revenue of the year.

The stable outlook on JRIH’s rating reflects our expectation that the Hai’an City Government’s capacity to provide support will be stable, and the Company’s characteristics, such as its important role in the provision of affordable housing and the development of Hai’an Logistics Development Zone (“Logistics Zone”), are expected to remain stable over the next 12 to 18 months.

Rating Drivers

- High strategic role in land development and affordable housing in Hai'an City
- Limited exposure to commercial activities
- Increasing debt level with large investment needs in public projects
- Moderate asset liquidity
- Government payment subject to long public project payment period
- Diversified and stable sources of funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Hai'an City Government's capacity to support materially strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as a material improvement in debt management or financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Hai'an 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 material increase in commercial business risk, or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	42.6	46.0	52.6	55.1
Total Equity (RMB billion)	14.1	14.6	16.7	16.8
Total Revenue (RMB billion)	2.2	2.6	3.6	1.0
Total Debt/Total Capital (%)	60.7	62.1	63.7	65.7

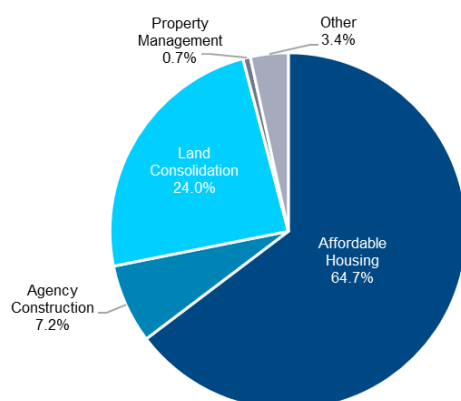
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Established in 2013, JRIH is one of the key local infrastructure investment and financing companies ("LIIFCs") in Hai'an City, a county-level city under the administration of Nantong City. JRIH is an important provider of affordable housing in Hai'an City and the main developer in the Logistics Zone. It undertakes the affordable housing and land consolidation business primarily through its fully-owned subsidiaries, Hai'an City Relocation and Reconstruction Co., Ltd. ("Hai'an Reconstruction") and undertakes the land development and infrastructure construction in the Logistics Zone primarily through Jiangsu Hai'an Trade Logistics Group Co., Ltd. ("Hai'an Trade Logistics"). JRIH also takes some commercial businesses such as property management and trading. As of 30 June 2023, JRIH was wholly-owned and controlled by the Hai'an City State-owned Asset Management Center ("Hai'an SAMC").

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Hai'an City Government has a strong capacity to provide support as one of the largest county-level cities in terms of GRP in Jiangsu Province, with strong geographic advantages and industrial development, while it has moderate fiscal metrics and debt profile.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2022, its total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP for the same period was RMB144,390, ranking first among all provinces in China.

Located in the southern of Jiangsu Province, Nantong City is an economic center and a modern port city 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 City has strong economic strength, ranking fourth by GRP in Jiangsu Province over the past three years. In 2022, it maintained a steady growth rate of 2.1% YoY and reached a GRP of RMB1,138.0 billion. With the improving economic strength, the Nantong City Government's general budgetary revenue also maintained a growth trend with a YoY increase of 3.2% after deducting the impact of retained tax refunds. However, the fiscal balance ratio (general budgetary revenue to general budgetary expenditure) maintained a moderate level of 53.4% in 2022. As of end-2022, the outstanding direct government debt amounted to RMB197.9 billion, relative to 17.4% of GRP. In the first three quarters of 2023, Nantong City's GRP achieved RMB900.6 billion, an increase of 5.5% YoY.

Exhibit 2. 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: Statistic Bureau of Nantong City, CCXAP research

Hai'an City is adjacent to the Yellow Sea to the east and facing the Yangtze River to the south. Hai'an City is one of the county-level cities under the administration of Nantong City with a good industrial base and economic development conditions. It has developed textile and garment, electrical machinery, general equipment and chemical fiber industry as its pillar industries. The number of industrial-scale enterprises and the number of enterprises with a scale over RMB100 billion in Hai'an City were both at the forefront in Jiangsu Province. Hai'an City demonstrated rapid economic growth over the past years. However, affected by the downward pressure on the macro economy in 2022, Hai'an City's economic growth rate slowed down to 1.8% and achieved a GRP of RMB134.4 billion. In addition, with excess tax refund, Hai'an City Government's general budgetary revenue declined to RMB6.6 billion and fiscal balance ratio dropped to 47.0%. Hai'an City Government's fiscal metrics and debt profile remained moderate. At the end of 2022, the outstanding debt increased to RMB22.9 billion, accounting for 16.6% of the GRP of Hai'an City.

Exhibit 3. Key Economic and Fiscal Indicators of Hai'an City

	2020FY	2021FY	2022FY
GRP (RMB billion)	122.2	134.3	138.0
GRP Growth (%)	5.8	9.1	1.8
General Budgetary Revenue (RMB billion)	6.5	7.0	6.6
General Budgetary Expenditure (RMB billion)	12.9	13.9	14.0
Local Government Debt (RMB billion)	20.9	21.7	22.9

Source: Statistic Bureau of Hai'an City, CCXAP research

Established in 2013, Logistics Zone is a provincial logistics park located in the north of Hai'an City, where the "road, railway and water" transportation facilities are concentrated. It is one of the two provincial-level comprehensive transportation hubs located in the county-level city approved by Jiangsu Province, positioning to serve the development of Yangtze River Delta integration and coastal area. The Logistics Zone is planned to lay out the industry pattern including four major functional platforms (multimodal transport, bonded logistics, futures delivery and spot trade) and six major material distribution centers (non-ferrous metals, plastic raw materials, textile raw materials, grain, wood and cold chain logistics). Major large enterprises in the Logistics Zone include Hai'an Tielian Logistics Co., Ltd., Hai'an Bonded Logistics Center Co., Ltd. and Jiangsu Hai'an Fengshan Port Co., Ltd.

Government's Willingness to Provide Support

High strategic role in land development and affordable housing in Hai'an City

JRIH is one of the key LIIFCs in Hai'an City under the supervision of the Hai'an City Government. It has a strong role in the construction and sales of local affordable housing in the urban area of Hai'an City and the development of the Logistics Zone. The Company is mandated by the local government to undertake urban housing demolition and relocation of residents, which is aligned with China's national housing policy in offering more affordable housing and promoting common prosperity. As of 30 June 2023, JRIH has completed a number of key affordable housing projects, such as Ruyi Garden and Wanxing Garden, with an investment of RMB16.7 billion, and key land clearance projects with an investment of RMB7.4 billion. The completed affordable housing units are mainly sold to residents who are affected by urban renewals.

JRIH is also responsible for the land development and infrastructure construction of the Logistics Zone. The Logistics Zone is one of the key provincial-level industrial parks in Jiangsu Province to promote the development of the local logistics industry. As of 30 June 2023, JRIH completed key infrastructure construction projects with

RMB5.7 billion, including road network and warehouses, and has invested RMB2.1 billion in key land consolidation projects in the Logistics Zone.

Over years of development, JRIH has developed competitive advantages in the affordable housing business and became the sole entity under the supervision of Hai'an City Government to conduct such business in the urban areas of Hai'an City. In addition, JRIH is also responsible for the development of the Logistics Zone. Given the important policy role in affordable housing and public function, we expect that the Company's strategic position in Hai'an City is unlikely to change in the near future.

Limited exposure to commercial activities

JRIH also engages in some commercial businesses such as property management and trading that expose the Company to certain business risks. Nevertheless, such exposure is limited with asset size accounting for less than 10% of its total assets.

JRIH engages in the property management business by providing property management services to the owner of affordable housing. JRIH is allowed to sell some affordable housing in the public market after meeting the needs of relocated residents affected by the removal and resettlement projects, which help partly compensate for its cost of urban renewal projects. In addition, Hai'an Trade Logistics also plans to engage in service business in the Logistics Zone such as warehousing service, which still is in the construction period and its exposure remains small.

Increasing debt level with large investment needs in public projects

JRIH has moderate debt management because of ongoing investment in public activities. Its total debt increased from RMB29.5 billion at end-2022 to RMB31.5 billion at mid-2023. It reported a capitalization ratio of 65.7% as of 30 June 2023. The Company has a considerable ongoing investment in its public activities including land consolidation, affordable housing and infrastructure construction. As of 30 June 2023, there was an uninvested amount of around RMB9.7 billion in key public projects under construction. We expect that JRIH will maintain an increasing trend in debt level due to its sizable future investment in public activities.

Exhibit 4. Key public projects under construction and under planning as of 30 June 2023

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB million)	(RMB million)	(RMB million)
Projects Under Construction				
Land Consolidation	4	7,350	2,109	5,241
Affordable Housing	2	2,268	733	1,535
Infrastructure Construction	1	574	107	467
Project Under Planning				
Land Consolidation	2	2,000	-	2,000
Infrastructure Construction	1	500	-	500
Total	10	12,692	2,949	9,743

Source: Company information, CCXAP Research

Moderate assets liquidity

JRIH's assets liquidity is moderate by the large number of accounts receivables and the high percentage of restricted assets. As of 30 June 2023, the Company's other receivables, accounts receivables and development

cost accounted for more than 65% of the total assets, which are considered to be less liquid. In addition, most of these amounts include current accounts, advances and deposits with local governments and state-owned enterprises, and the schedule of repayment depends largely on financial strength and land market conditions. Moreover, as of 30 June 2023, the value of the Company's restricted assets was RMB8.3 billion, accounting for 15.0% of the total assets, mainly including restricted intangible assets, inventories, investment real estate and other current assets. The large scale of restricted assets will affect the Company's operating activities, thereby affecting the Company's solvency in the future.

Track record of receiving government support

JRIH has a track record of receiving support from the government in various forms such as capital injection, financial subsidies, proceeds of project management and asset injections. For example, the local government injected capital of RMB2.1 billion to the Company in 2022, significantly enhancing its capital strength. In order to support the Company's operation and provision of public services such as land consolidation and affordable housing, the local government has also provided financial subsidies of RMB1.3 billion in total from 2020 to 2023H1.

JRIH has a consistent record of receiving government repayments, while it depends on the progress of settlement and there is an obvious lag in payment collection. The government repayments for JRIH's land consolidation business and infrastructure construction business depend on the local government's arrangement and fiscal revenue of the year. The payment period for most of its public projects is long and project payments may be negatively affected by the moderating local land sales activities and the pressure on economic downturn. From 2020 to 2023H1, the Company has received proceeds of approximately RMB2.3 billion in total from the land consolidation business and infrastructure construction business. Nevertheless, given the Company's strong strategic role and expanding public activities in Hai'an City, we expect the Company will continue to receive government payments in the future.

Exhibit 5. Track record of government support from 2020 to 2023H1

(RMB million)	2020	2021	2022	2023H1
Asset Injections	999	212	2,080	-
Financial Subsidies	113	228	821	183
Project Repayments	1,309	658	239	128
Total	2,421	1,098	3,140	311

Source: Company information, CCXAP Research

Diversified and stable sources of funding

JRIH has access to various sources of funding including bank loans and bond issuances, which may partially alleviate its liquidity pressure from its high short-term debt level. The Company maintains good relationships with large domestic banks such as policy banks and national joint-stock commercial banks. Two policy banks, the Agricultural Development Bank of China and China Development Bank, have provided long-term bank loans to the Company, accounting for the majority of its bank borrowing. As of 30 June 2023, the Company's total credit facilities were RMB13.4 billion, of which the unutilized amount was RMB1.5 billion, and its overall reserve liquidity was limited. The Company also has access to both onshore and offshore debt markets. During the first half of 2023, the Company and its subsidiaries raised RMB2.4 billion through the onshore debt market. As of 30 June 2023, the Company's exposure to non-standard financing was relatively low less than 5% of its total debts.

ESG Considerations

JRIH bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during construction.

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

JRIH'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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