

Credit Opinion

8 February 2024

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

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Baoying Development Investment Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g- long-term credit rating of Baoying Development Investment Co., Ltd. (“BDIC” or the “Company”) reflects Baoying County Government’s relatively strong capacity to provide support; and the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the Baoying County Government’s capacity to provide support reflects Baoying County’s comprehensive strength, ranking in the Top 100 counties in China, complemented with its geographic advantage, and modest fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role as the primary platform for infrastructure construction in Baoying Economic and Technological Development Zone (“Baoying ETDZ”); and (2) track record of receiving government support.

However, the rating is constrained by the Company’s (1) large investment needs from self-operated projects; (2) increasing debt level with a relatively high short-term debt burden; and (3) medium risk of contingent liabilities from external guarantees.

The stable outlook on BDIC’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Baoying County.

Rating Drivers

- Primary platform for infrastructure construction in Baoying ETDZ
- Track record of receiving government support
- Increasing exposure to commercial activities with capital expenditure pressure
- Increasing debt level with a relatively high short-term debt burden
- Medium risk of contingent liabilities from external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Baoying County Government's ability 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 improved regional importance and reduction in the exposure to external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) Baoying County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional importance or weakened government support.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	8.1	9.0	9.0	9.7
Total Equity (RMB billion)	5.2	5.3	5.5	5.6
Total Revenue (RMB million)	751.8	773.9	710.8	498.4
Total Debt/Total Capital (%)	30.7	30.7	27.0	32.1

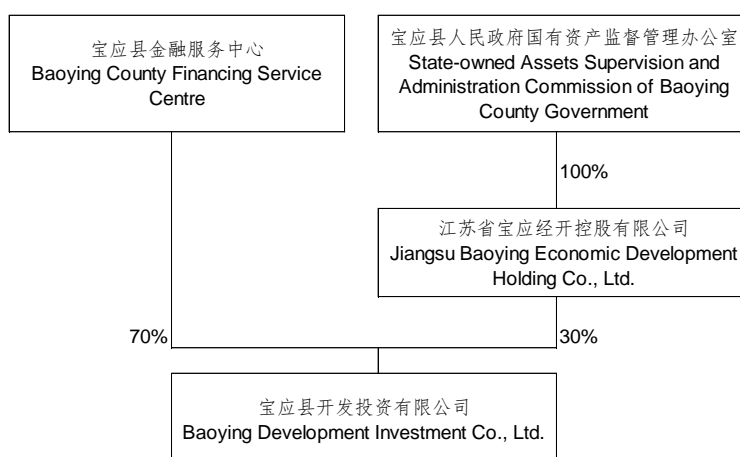
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

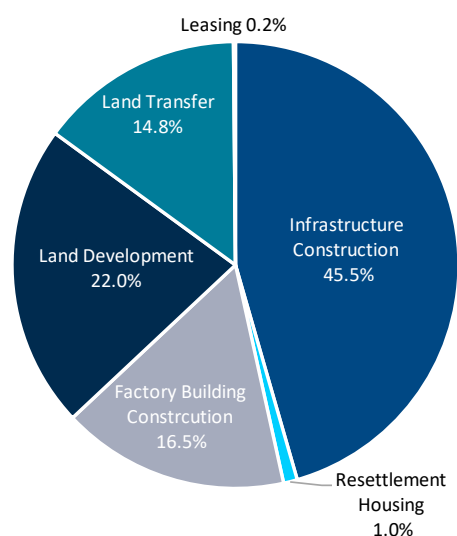
Founded in 2003, BDIC is one of the key local infrastructure investment and financing companies ("LIIFCs") in Baoying County, it is mainly responsible for construction projects of infrastructure, resettlement housing, factory building, as well as land consolidation in Baoying ETDZ. The Company also participates in commercial activities such as plant leasing and industrial park construction. On 25 December 2023, Baoying County Financial Service Centre ("Baoying FSC") replaced Baoying County SME Financing Service Centre ("Baoying SME"), due to the deregistration of Baoying SME, as BDIC's majority shareholder. As of 31 December 2023, Baoying County Government controlled BDIC with the indirect holding of 30% of the share through Jiangsu Baoying Economic Development Holding Co., Ltd. ("BEDH") and direct holding of 70% of the share.

Exhibit 1. Shareholding and organization chart as of 31 December 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 that the Baoying County Government has a relatively strong capacity to provide support for the Company, given its steady gross regional product ("GRP") growth in recent years, and its GRP per capita remains above the national GRP per capita. However, as a county-level district in Yangzhou City, its economic scale is relatively small.

Yangzhou City is a prefecture-level city administrated under Jiangsu Province. Jiangsu's economic and fiscal strength outperforms other provinces in China. In 2022, the gross regional product ("GRP") of Jiangsu Province was RMB12.3 trillion, ranking second in the country; its GRP growth rate was 2.8%. Yangzhou City is in the middle of Jiangsu Province, as the hub city of the Yangtze River and the Beijing-Hangzhou Grand Canal, Yangzhou City has a significant location advantage. It was an important salt and grain distribution center in history and is now the water source of the South-to-North Water Diversion Project. The location advantage of

Yangzhou City helps support its rapid economic growth. In recent years, Yangzhou City has focused on developing six core industrial clusters, which include high-end equipment, automobiles and auto parts, new energy and new materials, and 13 emerging industrial chains, which include aviation, industrial aircraft and robots. Benefiting from its good location advantages and optimized industrial structure, Yangzhou City has achieved sustained economic growth in recent years. Yangzhou's GRP reached over RMB710.5 billion in 2022, with a growth rate of 4.3%, ranking medium level in Jiangsu Province. In 2023, Yangzhou City recorded a preliminary accounted GRP of RMB742.3 billion, an increase of 6.0% YoY. In 2022, Yangzhou City reported a general budgetary revenue of RMB32.5 billion, of which tax income accounted for 73.2% of its fiscal revenue, representing a relatively good fiscal quality. However, recent fluctuations in the real estate market may affect its fiscal stability as government funds accounted for more than 50% of the total fiscal revenue, which mainly came from land sales. At the end of 2022, Yangzhou Municipal Government's local government debt balance was RMB110.5 billion, accounting for 15.5% of GRP.

Exhibit 3. Key economic and fiscal indicators of Yangzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	604.8	669.6	710.5
GRP Growth (%)	3.5	7.4	4.3
General Budgetary Revenue (RMB billion)	33.7	34.4	32.5
General Budgetary Expenditure (RMB billion)	66.8	68.5	69.9
Local Government Debt (RMB billion)	90.5	97.8	110.5

Source: Statistics Bureau of Yangzhou City, CCXAP research

Baoying County is a county-level city under the jurisdiction of Yangzhou City, located in the central part of Jiangsu Province. In 2023, according to CCID Consulting, Baoying County ranked in the Top 100 counties/county-level cities in China, in terms of investment competitiveness. The total area of Baoying County is 1,467 square kilometers, with 14 towns and one provincial economic development zone, namely the Baoying ETDZ, within its jurisdiction. It has developed some core industries, mainly including construction, new power equipment, electronic information, and new materials. In 2022, Baoying County recorded a GRP of RMB88.2 billion, increasing by 4.6% YoY. Meanwhile, Baoying County had a good GRP per capita of around RMB129.6 thousand, which was above the national GRP per capita (RMB85.7 thousand). However, the economic scale of Baoying County was still small compared to other districts or counties in Yangzhou City. Baoying County's GRP accounted for only 12.4% of Yangzhou's GRP in 2022. In addition, Baoying County Government had a modest fiscal profile. Its general budgetary revenue decreased by 2.6% to RMB2.4 billion in 2022, due to the reduction in tax revenue resulting from the government tax refund policy. In 2023, Baoying County recorded a preliminary accounted GRP of RMB96.0 billion, an increase of 7.0% YoY. In 2022, the percentage of tax revenue to the general budgetary revenue dropped to 71.1%, a decrease from the level of over 77% during the past three years. Yet, tax revenue is still a stable source of general budgetary revenue with a high portion of more than 70% over the past three years. However, Baoying County Government has a relatively low fiscal balance ratio (general budgetary revenue/general budgetary expenditure), averaging 27.6% over the past three years, indicating its high reliance on fiscal support from higher-tier government and government fund. As of end-2022, Baoying Government's direct outstanding debt amounted to RMB10.9 billion, accounting for about 12.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Baoying County

	2020FY	2021FY	2022FY
GRP (RMB billion)	76.3	84.1	88.2

GRP Growth (%)	3.6	7.5	4.6
General Budgetary Revenue (RMB billion)	2.5	2.5	2.4
General Budgetary Expenditure (RMB billion)	8.5	8.6	10.0
Local Government Debt (RMB billion)	8.5	9.5	10.9

Source: Statistics Bureau of Baoying County, CCXAP research

Baoying ETDZ was established in 2002 and is one of the first batch of provincial-level development zones in Jiangsu Province. The total area of Baoying ETDZ is 58.2 square kilometers, and the built-up area is 20 square kilometers. Baoying ETDZ focuses on developing three new industries, including new power equipment, new generation electronic information and communication, and high-end new materials. In addition, Baoying ETDZ has formed industry parks to support the development in this area, providing support for the long-term sustainable development of BDIC.

Government's Willingness to Provide Support

Primary platform for infrastructure construction in Baoying ETDZ

BDIC plays a key role in promoting the social and economic development of Baoying ETDZ and is designated to carry out the directions and policies for the county development of the Baoying County Government. There are two major LIIFCs in Baoying County to support local economic and industrial development, namely Baoying County City Construction Investment Development Co., Ltd ("BCCI") and BDIC. Each has a clear position under the local government's planning. BCCI is positioned as a core entity for infrastructure construction in Baoying County and land consolidation in New Town Area, while BDIC is mainly responsible for infrastructure construction, factory building, resettling housing, and land consolidation in Baoying ETDZ and two towns under the jurisdiction of Baoying County. We believe that the important strategic position of the Company to Baoying ETDZ's economic development and public welfare is unlikely to be replaced in the short-to-medium term.

BDIC has undertaken a number of infrastructure construction and resettlement housing projects over the past years. Most of these projects are undertaken under agent construction models. The Company has signed agency agreements with the Baoying County Government and entrusting parties, and carries out the construction works in accordance with relevant plans, requirements, and procedures. The initial funds for these projects are borne by the Company. After these projects are completed and inspected, the local government pays the Company based on the actual cost plus a markup in return, generally 15%-20%. As of end-2022, the Company has completed 9 key agent construction projects including factory construction, supporting facilities construction and resettlement housing, with a total investment of around RMB536.4 million. At the same time, the Company had 9 entrusted construction projects under construction, most of which were planned to be completed by 2024, and there was no project under planning. The projects include infrastructure construction, factory building construction and resettlement housing, with a total investment amount of RMB2.5 billion and an uninvested amount of RMB324.6 million.

As the main developer and operator of Baoying ETDZ, BDIC also engages in land consolidation in Baoying ETDZ. The Company signed land consolidation agreements with the Baoying County Government, who would make installment payments to the Company based on the actual cost plus a markup in return upon completion, generally 10%-15%. As of end-2022, the Company had 12 land projects under consolidation with a book value of RMB355 million, and no land projects under planning. In addition, as of end-2022, the Company had 15 pieces of land that are transferable with a total book value of RMB1.2 billion, which would bring revenue after being sold publicly or to investors. Its land development business has a strong sustainability supported by its

land reserves, however, there is uncertainty in the future income as it is highly subject to the local government's land planning policies and fluctuations in the local land market.

Overall, considering the BDIC's essential role in fostering urbanization development in Baoying County, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

Increasing exposure to commercial activities

Apart from public services, BDIC has also been engaged in commercial activities, including leasing business and self-operating projects. While the commercial activities generate supplemental income, they may also pose higher operating and business risks than traditional infrastructure construction businesses.

The Company is responsible for the investment and construction of industrial parks in Baoying ETDZ to promote local investment attraction and industrial development. As of 31 December 2022, the Company had 3 self-operated projects under construction with a total investment of RMB2.7 billion, which are still in the early stages of investment. The Company's industrial park construction projects are policy driven with the aim to simulate the economic growth and industrial development of Baoying County. One of the self-operating projects is the Baoying Agricultural Production, Supply and Marketing Integration Upgrade, and New Ecological Cultural Tourism project. The project will build an intelligent processing and packaging area for agricultural products through upgrading of the standardised plant, expanding the scale of intelligent production by upgrading the processing technology, facilities and equipment, so as to enhance the competitiveness of Baoying's agricultural products. However, the construction of self-operated projects brings large capital expenditure pressure and business risk. The capital recovery cycle for industrial parks is typically long, requiring attention to the subsequent operation and investment return of the industrial parks. The leasable assets of BDIC are factory buildings and residential buildings. The overall occupancy rate of the factory buildings is high but the contribution to revenue and gross profit is still limited. The Company recorded a rental income of RMB1.0 million in 2022, accounting for 0.1% of revenue.

Track record of receiving government payments

BDIC has received ongoing support from the Baoying County Government including project payments and operational subsidies. From its establishment in 2003 to 30 September 2023, the Company received capital injections from the local government totaling RMB150.0 million. In addition, from 2020 to 2023Q3, the Company received a total of RMB637.7 million in financial subsidies from the local government, which was a great contribution to the Company's net profit and will give the Company more resources and flexibility to support new investments and constructions. However, the government payments for BDIC's public infrastructure projects are highly subject to the local government's fiscal budget. Given the Company's strong public policy role and expanding public-related activities align with its project reserves in the Baoying ETDZ, we expect the Company will continue to receive government payments over the next 12 to 18 months.

Increasing debt level with a relatively high short-term debt burden

BDIC's debt level kept increasing due to the finance for ongoing self-operated projects and agency construction projects and its debt leverage maintained at a moderate level. As of 30 September 2023, the Company's total debt increased to RMB2.7 billion from RMB2.2 billion as of 30 September 2022 while its total capitalization ratio increased to 32.1% from 28.8% during the same period. However, the Company's short-term debt burden was relatively high with short-term debt increasing by 32.8% YoY to RMB1.5 billion, accounting for 57.8% of total debt. However, the Company's asset liquidity was moderate, as its total asset mainly consists of other

receivables and contract assets. As of 30 September 2023, the Company's other receivables (17.4% of total assets) and contract assets (37.2% of total assets) are mainly unreceived payments from the government or other state-owned companies due to the agency construction projects, which are considered having low liquidity. Besides, the Company had pledged assets of RMB1.3 billion for loans, representing 12.9% of total assets as of 30 September 2023.

Given the Company's large capital expenditure arising from its projects, especially its start-age self-operated projects, we expect the Company's total debt will continue to grow in the next 12 to 18 months.

Fair access to bank borrowing and high reliance on funding from the capital market

BDIC has fair access to different sources of funding including bank loans, onshore and offshore bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. Bank loans and bond issuances accounted for around 35.0% and 43.3% of total debt, respectively, as of 30 September 2023.

The Company has a track record of fund-raising activities in the capital market, around half of the debt financing was provided by bond issuances. The Company has issued several types of debt products such as private placement notes ("PPNs") and corporate bonds. In 2023, the Company had raised RMB1.35 billion through three tranches of onshore bond issuances. Meanwhile, in 2023, the Company issued a tranche of offshore bonds (pearl bonds) to raise RMB335 million respectively. However, the Company's high reliance on direct financing may cause the refinancing stability of the Company to be easily affected by fluctuations in the capital market. For instance, the tightening of LIIFC's funding condition may impose further refinancing pressure on the Company.

BDIC maintains long-term relationships with several banks, such as the Agricultural Development Bank of China, the Industrial and Commercial Bank of China, and the Agricultural Bank of China. Its credit facilities reserve improved although remained small. As of 30 September 2023, the Company has obtained total bank credit facilities of RMB2.1 billion, with an unutilized amount of RMB850.0 million. Furthermore, the Company decreased its exposure to non-standard financing, with a proportion to total debt of around 7.0% as of 30 September 2023, reducing from 13.9% as of 30 September 2022.

Medium risk of contingent liabilities for the external guarantee

BDIC remained medium exposure to contingent liabilities, which could potentially increase its repayment obligations. Its external guarantees amounted to RMB4.3 billion as of 31 December 2022, relative to 77.8% of its net assets. All external guarantees were provided to other local LIIFCs and local state-owned enterprises ("SOE") in Baoying County without counter-guarantee measures. However, in case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which is negative to its credit quality.

In 2023, the Company faced a contingent liability obligation due to a credit event of its guarantee. BDIC's guaranteed party, Jiangsu Yingqing New Energy Co., Ltd. ("Yingqing New Energy"), failed to pay the principal (RMB15 million), interest and other amount to the lender. Yingqing New Energy is in liquidation procedure. According to the Company, the overdue will be firstly repaid by the sales of collaterals, including industrial lands and properties, and the sales of the 100% equity stake of Yingqing New Energy. If the proceeds from the sales of collaterals and equity are not able to fully cover the Yingqing New Energy's obligation, BDIC as a guarantor faces contingent liability risk and should be jointly and severally liable for 50% of obligation.

ESG Considerations

BDIC faces environmental risks because it has undertaken primary infrastructure construction and land consolidation projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

BDIC bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Baoying County. 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.

BDIC's governance considerations are also material as the Company is subject to oversight and reporting requirements of 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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