

Credit Opinion

9 February 2024

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

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Xixian New Area Jinghe New City Industrial Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g- to Xixian New Area Jinghe New City Industrial Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Xixian New Area Jinghe New City Industrial Development Group Co., Ltd. (“JHID” or the “Company”) reflects (1) Xixian New Area Government’s very strong capacity to provide support; and (2) the local government’s relatively 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 Xixian New Area’s status as one of 19 state-level new areas with sound fundamentals, but is constrained by its high debt burden of government and local state-owned enterprises.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction and industry development of Jinghe New City; (2) solid track record of receiving government supports.

However, the rating is constrained by the Company’s (1) high exposure to commercial activities with large capital expenditure; (2) increasing debt burden driven by construction projects; and (3) moderate asset liquidity.

The stable outlook on JHID’s rating reflects our expectation that Xixian New Area Government’s capacity to provide support will remain stable, and the Company will maintain its significant strategic position in the development of Jinghe New City.

Rating Drivers

- Important role in infrastructure construction and industry development of Jinghe New City
- High exposure to commercial activities with large capital expenditure
- Solid track record of receiving government supports
- Increasing debt burden driven by construction projects
- Fair access to funding, but relatively concentrated in regional banks in Xi'an City

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xixian New Area Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management or reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Xixian New Area 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 significance or deteriorated financing ability.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	11.5	15.2	22.1	29.1
Total Equity (RMB billion)	4.4	5.6	8.3	9.5
Total Revenue (RMB billion)	0.6	0.9	0.9	0.2
Total Debt/Total Capital (%)	43.0	48.5	54.9	59.1

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2019, JHID is one of the key state-owned enterprises of Xixian New Area and plays important role in the local urban development and operation. The Company mainly engages in public infrastructure projects, including infrastructure construction, land consolidation, and affordable housing construction. It also engaged in commercial businesses such industrial parks construction and operation, real estate development, trading, and leasing. As of 31 January 2024, the Management Committee of Jinghe New City in Xixian New Area of Shaanxi Province ("Management Committee of Jinghe New City") directly owned and controlled the Company by holding 89.22% of its shares. The rest of shares are owned by Shaanxi Xixian New Area Capital Operation Group Co., Ltd.

Exhibit 1. Revenue structure in 2022

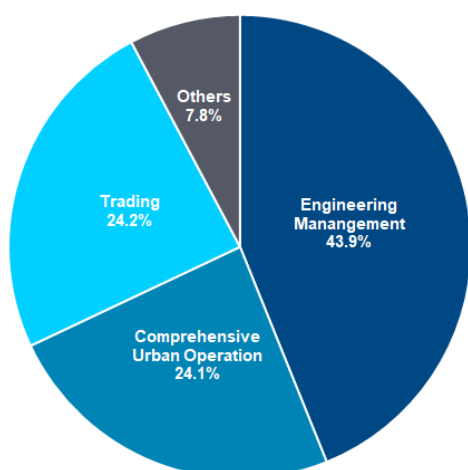
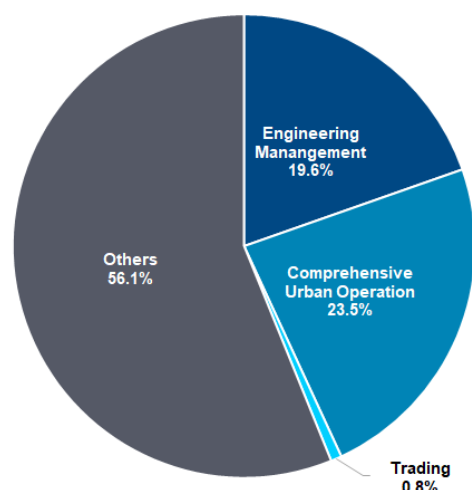


Exhibit 2. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Xixian New Area Government has very strong capacity to provide support for the Company, given its status as one of 19 state-level new areas with sound fundamentals, but is constrained by its high debt burden.

Shaanxi Province has a relatively stable economic growth, providing a good support for the industrial development of Shaanxi Province. Shaanxi Province is located in the hinterland of China, with advantageous geographical location to serve as a bridge between the eastern and western regions of China. Meanwhile, Shaanxi Province is also an important transportation hub in China, with a well-developed high-speed rail network and expressway network. With the good transportation and location advantages, Shaanxi Province's economic strength improved steadily with general regional product ("GRP") increasing from RMB2.6 trillion to RMB3.3 trillion from 2020 to 2022, ranking 14th among all provinces in China. Shaanxi Provincial Government's fiscal strength also improved along with the economic growth. In 2022, the general public budgetary revenue of Shaanxi Province amounted to RMB331.2 billion. In 2023, Shaanxi Province's GRP was recorded at RMB3.4 trillion, representing a year-over-year ("YoY") increase of 4.3%.

Xi'an City is the provincial capital of Shaanxi Province and is located in the center of Shaanxi Province. It is also a Vice-provincial City and a National Central City approved by the State Council. On the back of its geographical advantages, Xi'an City has developed six pillar industries, including electronic information manufacturing, automobiles, aerospace, high-end equipment manufacturing, new materials and new energy, as well as biomedicine. Xi'an City is the biggest city in Shaanxi Province in terms of economic size and its GRP ranked first in Shaanxi Province over the past five years. In 2022, Xi'an City recorded GRP of over RMB1.1 trillion, representing a YoY growth of 4.4% and accounting for approximately 35% of Shaanxi Province's GRP. It also has good fiscal stability with tax income contributing to over 70% of the general budgetary revenue over the past three years. However, its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 53.0% in 2022, which was at a relatively weak level. Xi'an City also had a relatively high debt burden as its outstanding government debt was RMB362.6 billion as of 31 December 2022, accounting for 31.6% of its GRP. In 2023, Xi'an City recorded GRP of RMB1.2 trillion, a YoY increase of 5.2%.

Exhibit 3. Key economic and fiscal indicators of Xi'an City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,002.0	1,068.8	1,148.7
GRP Growth (%)	5.2	4.1	4.4
General Budgetary Revenue (RMB billion)	72.4	85.6	83.4
General Budgetary Expenditure (RMB billion)	134.8	147.5	157.3
Local Government Debt (RMB billion)	281.0	323.1	362.6

Source: Statistics Bureau of Xi'an City, CCXAP research

Xixian New Area is a state-level new area located between Xi'an City and Xianyang City. It was established by the Shaanxi Provincial Government in 2011 and became the seventh state-level new area in 2014 with the approval of the State Council. It is strategically positioned as the new modern center of Xi'an City, the new engine of the western development, an important fulcrum of the Silk Road Economic Belt, as well as the national experimental area for innovative urban development. From 2020 to 2022, Xixian New Area's GRP increased from RMB61.3 billion to RMB62.5 billion. However, the local government's general budgetary revenue sharply decreased to RMB5.9 billion in 2022, due to the reduction in tax revenue resulted by the government tax refund policy. Meanwhile, its fiscal balance ratio significantly decreased to 57.6% from 70.7% in 2021. The average fiscal balancing ratio over the past three years was 63.7%. Moreover, Xixian New Area has a relatively high debt burden, its outstanding government debt amounted to RMB89.6 billion as of end-2022, accounting for about 143.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Xixian New Area

	2020FY	2021FY	2022FY
GRP (RMB billion)	61.3	65.3	62.5
GRP Growth (%)	7.2	3.7	3.5
General Budgetary Revenue (RMB billion)	8.4	10.6	9.5
General Budgetary Expenditure (RMB billion)	13.4	15.1	16.5
Local Government Debt (RMB billion)	65.6	72.5	89.6

Source: Xixian New Area Government, CCXAP research

Jinghe New City is one of the five regions and is located in the northeastern part of the Xixian New Area. Leveraging its geographical advantages, Jinghe New City is designated to be developed into an industrial base focusing on emerging industries such as new energy, new materials and manufacture of high-end equipment; developing priority industries such as geological information, modern services, modern agriculture, and cultural tourism. Jinghe New City's GRP increased by 9.2% YoY in 2022, which was 5.7 percentage points higher than the growth rate of Xixian New Area and 4.8 percentage points higher than that of Xi'an City. In 2022, the general budgetary revenue of Jinghe New City was RMB4.2 billion.

Government's Willingness to Provide Support**Important role in infrastructure construction and industry development of Jinghe New City**

As an important urban operator in Jinghe New City, JHID plays a vital role in infrastructure construction and industry development of Jinghe New City. The Company focuses on public infrastructure and welfare projects, including infrastructure construction, land consolidation, and affordable housing construction. The Company conducts infrastructure construction business mainly through agency construction model. Under agency construction model, the Company signs construction agreements with entrusting parties, usually with a certain degree of markup. As of 30 September 2023, the Company has completed several projects, such as schools,

park, and sports complex. From the perspective of project reserves, the Company had 13 infrastructure projects under construction and planning as of 30 September 2023, with a total planned investment of RMB7.6 billion and an uninvested amount of RMB6.4 billion. The sufficient project reserves demonstrated the sustainability of the Company's public-policy businesses.

JHID also engages in affordable housing in Jinghe New City. The local government would repurchase the affordable housing and pay the project construction management fee to the Company after examination of the project. As of 30 September 2023, the Company had 4 projects under construction and 4 projects under planning with uninvested amount of RMB10.1 billion, exerting high capital expenditure pressure.

Entrusted by the management committee of Jinghe New City, the Company participates in land development and consolidation business in Jinghe New City. Entrusted by the Land Reserve Center of Jinghe New City, the Company would pay land consolidation fees to the sub-district and street offices, who would be responsible for land acquisition, demolition, compensation, development, and consolidation within the planned area. The Land Reserve Center of Jinghe New City would pay the Company based on the cost of land consolidation plus 12% markup after completion of the land consolidation. From 2020 to 2022, the Company had invested RMB692 million in land consolidation projects.

Overall, considering the JHID's important position in undertaking public-policy projects in Jinghe New City, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High exposure to commercial activities with large capital expenditure

Apart from public-policy projects, JHID also engages in commercial activities including industrial parks construction and operation, real estate development, trading, and leasing. While the commercial activities generate supplemental income, they may also pose higher operational and business risks than infrastructure construction business under agency construction model. Moreover, the large amount of future investments in industrial parks would bring large capital expenditure pressure to the Company. In our view, the Company's exposure to commercial businesses is high, accounting for more than 30% of its total assets as of 30 September 2023.

With the aim to attract investments and promote the development of local industries, JHID actively engages in industrial parks construction mainly through self-operated model. The Company would achieve fund balancing through selling and leasing after the projects are completed. Compared with direct payment from the local government, the self-operated construction projects expose the Company to more funding and business risks. As of 30 September 2023, there were 9 industrial parks under construction, with a total investment of RMB37.1 billion and an outstanding amount of RMB33.2 billion. The largest two projects in terms of total investment are Jinghe Smart Valley Project and Photovoltaic New Energy Industrial Park Project, with the total investment of each project exceeding RMB10 billion. We believe the riskiness of this business is manageable as the development of industrial parks is more policy-driven and beneficial to the local industrial development, which also aligns with the development blueprint of Xixian New Area Government. However, the large amount of future investment of industrial park projects would bring large capital expenditure pressure to the Company.

JHID also engages in real estate development business in Jinghe New City, mainly to improve the regional business environment. The main customers of the Company are employees of enterprises attracted and settled in Jinghe New City. As of 30 September 2023, there were 5 commercial residential housing under construction, with uninvested amount of RMB2.5 billion. This may expose the Company to certain business risks. Moreover,

under the downturn of the real estate market, increasing investment in property development may bring more operating uncertainty and financial risks to the Company.

In addition, the Company expanded its business to trading business, which has generated considerable amount of revenue to the Company, accounting for around 24% of the total revenue in 2022. However, the gross profit margin of this business sector is relatively low. The main products of trading business are chemical raw materials and electronic equipment. The Company also bears relatively high concentration risks. Xi'an Gaoke Logistics Development Co., Ltd. was JHID's important supplier and customer, accounting 73.5% and 73.6% of its total procurements and total sales, respectively.

Solid track record of receiving government supports

In recognition of the importance of JHID's businesses to Jinghe New City, the Company has received comprehensive supports from the government, in terms capital injections, project repayments, and operating subsidies. From 2020 to 2023Q3, the Company received capital injection of RMB1.6 billion in cash from the Management Committee of Jinghe New City, substantially enhancing JHID's capital strength. JHID also has a good track record of receiving government payments. From 2020 to 2023Q3, the Company continuously received operating subsidies from the local government with a total amount of around RMB710 million. The Company also received project repayment for its infrastructure construction projects of RMB600 million. Overall, we expect JHID to receive ongoing government support in the next 12-18 months given its important role in the development of Jinghe New City.

Increasing debt burden driven by construction projects

JHID shows a rising debt burden owing to its expansion in the construction of public-policy projects and investment in commercial activities over the past few years. As of 30 September 2023, the Company's total debt increased to RMB13.7 billion from RMB3.3 billion as end-2020. Its capitalization ratio, as measured by total debt to total capital, also increased to 59.1%. However, its debt structure has improved over the past three years. As of 30 September 2023, the Company's short-term debt to total debt ratio decrease to 10.2% from 42.8% as of end-2022, and the cash to short-term debt ratio increased to 1.3x from 0.4x as of the same date. As of 30 September 2023, the Company has planned to invest more than RMB50.0 billion in key projects including industrial parks, infrastructure construction, affordable housing, and property development projects. We expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

JHID's asset liquidity was relatively weak. As of 30 September 2023, the Company had pledged some assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB4.0 billion, accounting for 41.6% of the net assets and 13.6% of the total assets. On top of that, as of 30 September 2023, the Company's inventories, other non-current assets, other receivables, and investment properties accounted for more than 80% of the total assets. The Company's inventories mainly include the cost of construction works, while other receivables are mainly receivables from the local government, which are considered low liquidity.

Fair access to funding, but relatively concentrated in regional banks in Xi'an City

JHID has access to financing channels including banks and non-standard financing products, of which bank borrowing is the major financing channel. The Company has maintained a good relationship with policy banks, large state-owned banks, commercial banks, and rural commercial banks. As of 30 September 2023, the Company has obtained total bank credit facilities of RMB13.8 billion, with an unutilized amount of RMB7.3 billion.

However, the funding sources of the Company were concentrated from regional banks in Xi'an City. As of 30 September 2023, bank loans from Shaanxi Qinnong Rural Commercial Bank Co., Ltd and Bank of Xi'an Co., Ltd. accounted for more than 40% of total bank loans. The borrowing from local banks has higher costs compared to large national banks and is highly linked to the changes in local financing environment. Moreover, the Company's exposure to non-standard financing was relatively large, which accounted for around 30% of total debt. The main non-standard financing products were entrusted loans, trusts and financial lease. The non-standard financing generally has high financing cost, which would bring higher refinancing pressure to the Company. Taking into account of JHID's important status and the pivotal role in the local development of Jinghe New City, we expect the Company to expand its financing channels, such as debt capital market. However, the rising debt level in Xixian New Area and Jinghe New City may put certain pressure on the financing activities of the Company.

ESG Considerations

JHID faces environmental risks because it has undertaken land consolidation, social housing, and infrastructure construction 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.

JHID bears social risks as it implements public policy initiatives by building public infrastructure in Jinghe New City. 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.

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

Appendix

Exhibit 5. Peer comparison

	Xixian New Area Jinghe New City Industrial Development Group Co., Ltd.	Jinghe New City Development and Construction (Group) Co., Ltd. of Xixian New Area, Shaanxi Province
Long-Term Credit Rating	BBB _g -	BBB _g -
Shareholder	Management Committee of Jinghe New City (89.22%) and Shaanxi Xixian New Area Capital Operation Group Co., Ltd. (10.78%)	Shaanxi Xixian New Area Development Group Co., Ltd. (48.48%), Management Committee of Jinghe New City (45.14%), Shaanxi Financial Asset Management Co., Ltd. (4.94%), and China's Agriculture Development Key Construction Fund Co., Ltd. (1.44%)
Positioning	Key entity in urban operation and industry development of Jinghe New City	Major urban developer and operator of Jinghe New City
Total Asset (RMB billion)	22.1	44.0

Total Equity (RMB billion)	8.3	12.0
Total Revenue (RMB billion)	0.9	3.0

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2022.

Source: CCXAP research, Company information

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