

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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Jiangsu Hongye Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiangsu Hongye Holding Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangsu Hongye Holding Group Co., Ltd. (“JSHY” or the “Company”) reflects the local 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 local government’s capacity to provide support reflects the Suqian Economic Technology Development Zone’s (“Suqian ETDZ”) important role in industrial development as a national-level ETDZ in Suqian City, combined with fast economic growth and good emerging industries foundations. However, it has a relatively small economic scale in Suqian City.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as a comprehensive service operator for industrial investment and development in Suqian ETDZ; and (2) track of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, with large investment needs in industrial construction and uncertainty in project returns; and (2) moderate financing channels.

The stable outlook on JSHY’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important position in Suqian ETDZ over the next 12-18 months.

Rating Drivers

- Position as a comprehensive service operator for industrial investment and development in Suqian ETDZ
- Medium risk exposure to commercial activities
- Track record of receiving government support
- Moderate access to funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 a decrease in commercial activities exposure and diversified financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 less reliability on government support like the progress of in major asset transfers fell short of expectations, materially increased exposure to commercial activities or a deterioration in its debt management.

Key Indicators

	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	6.4	7.3	13.0
Total Equity (RMB billion)	4.4	4.2	8.2
Total Revenue (RMB million)	109.2	126.4	252.0
Total Debt/Total Capital (%)	18.5	31.2	31.1

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2013, JSHY is one of the three important local state-owned enterprises in Suqian ETDZ, Suqian City, and is positioned as a comprehensive service operator for industrial investment and development in Suqian ETDZ. In October 2023, JSHY experienced an ownership structure change promoted by the Management Committee of Suqian ETDZ. The shares of the Company were transferred to the Management Committee of Suqian ETDZ; and its former parent, Suqian Economic Development Industry Investment Group Co., Ltd. ("SQII"), became a wholly-owned subsidiary of the Company. SQII has been mainly responsible for industrial estate development in the ETDZ since then. JSHY has four business segments which include industrial estate, industrial park supporting services, industrial supporting facilities and industrial investment, respectively. As of 30 September 2023, the Management Committee of Suqian ETDZ fully and directly owned the Company.

In June 2023, the Management Committee of Suqian ETDZ issued the equity transfer documents to agree to transfer 51% of the stakes of the three companies holding industrial resources. Those stakes were obtained through a capital increase and share expansion, which was completed before 30 September 2023, but the

official alteration of registration will be completed in June 2024. Based on the government document, the Company already had actual control over these three companies.

Exhibit 1. Revenue structure in 2022

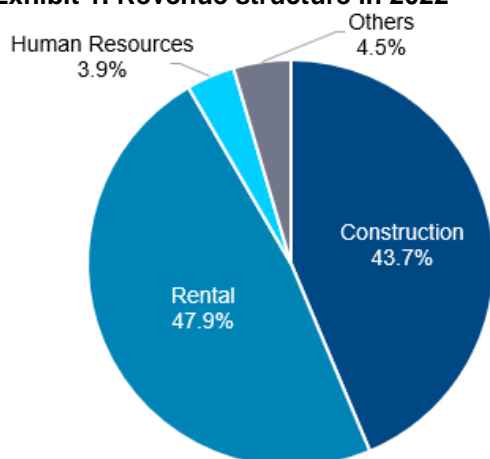
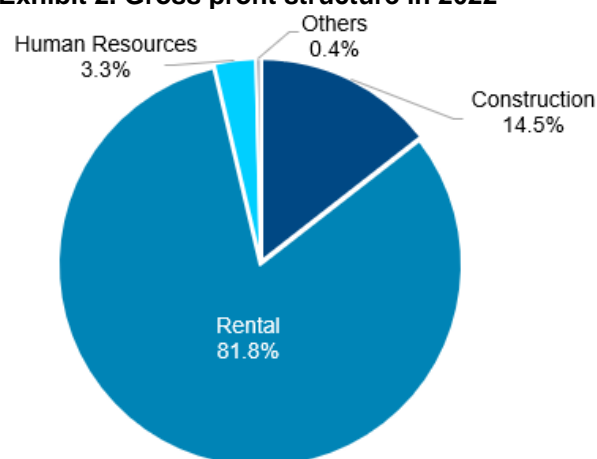


Exhibit 2. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has a relatively strong capacity to provide support, given Suqian ETDZ's important role in industrial development as a national ETDZ in Suqian City combined with fast economic growth and good emerging industries foundations, while has a relatively small-scale economy in Suqian City.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country. In 2023, according to preliminary estimation, Jiangsu Province achieved a GRP of RMB12.8 trillion with a YoY increase of 5.8%.

Suqian City is located in the north of Jiangsu Province with good economic growth and it has one national economic technology development zone and one national high-tech zone. Suqian City has currently formed six leading industries, mainly including electromechanical equipment, green food, high-end textiles, photovoltaic new energy, green home furnishings and new materials. The optimization of the industrial structure has provided strong support for Suqian City's economic growth and financial strength. In 2022, Suqian City recorded a GRP of RMB411.2 billion, with a YoY increase of 3.6%. In 2023, according to the preliminary estimation, the GRP of Suqian City increased by 7.8% YoY to RMB439.8 billion, and the growth rate ranked second among prefectural-level cities in Jiangsu Province. Suqian Municipal Government's general budgetary revenue has been increasing over the past three years, and the proportion of tax revenue has remained at a high level of an average of 84.2%. In 2023, according to preliminary estimation, Suqian Municipal Government's general budgetary revenue increased by 11.1% YoY to RMB30.2 billion, and tax revenue increased by 10.0% YoY to RMB24.0 billion. However, its fiscal balance ratio (calculated as general budget revenue over general budget expenditure) was at a moderate level, with an average ratio of around 42.3% over the past three years. At the end of 2022, the local government's outstanding debt amounted to RMB90.2 billion, accounting for around 21.9% of GRP.

Exhibit 3. Key economic and fiscal indicators of Suqian City

	2020FY	2021FY	2022FY
GRP (RMB billion)	326.2	371.9	411.2
GRP Growth (%)	4.5	9.1	3.6
General Budgetary Revenue (RMB billion)	22.1	26.8	27.2
General Budgetary Expenditure (RMB billion)	58.9	58.4	62.2
Local Government Debt (RMB billion)	79.4	87.6	90.2

Source: Suqian Municipal Government, CCXAP research

Suqian ETDZ was founded in November 1998, and was approved as a national economic technology development zone by State Council in January 2013. Suqian ETDZ is a manufacturing base for emerging industries in Jiangsu Province and the Yangtze River Delta region. It has developed “3+1” characteristic industries which are photovoltaic new energy, food and beverages, smart home appliances, and new electronic information, gathering well-known brands such as Shuanglu Shangling, Geli Dasong and Haitian. From 2020 to 2022, the GRP of Suqian ETDZ has increased from RMB16.0 billion to RMB20.6 billion with a fast growth rate. In the first half of 2023, the GDP of Suqian ETDZ increased by 17.6% YoY, and the industrial output value above the designated size increased by 23.5% YoY. The general budgetary revenue of Suqian ETDZ was relatively stable over the past three years, with a high proportion of tax revenue and a good level of fiscal self-sufficiency. From 2020 to 2022, its tax revenue accounted for an average of 92.4% of the public budget revenue and the average fiscal balance ratio was around 85%. At the end of 2022, the outstanding direct local government debt was RMB3.0 billion, accounting for 14.7% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Suqian ETDZ

	2020FY	2021FY	2022FY
GRP (RMB billion)	16.0	18.2	20.6
GRP Growth (%)	7.3	14.1	13.3
General Budgetary Revenue (RMB billion)	2.1	2.0	2.0
General Budgetary Expenditure (RMB billion)	2.0	2.1	3.6
Local Government Debt (RMB billion)	2.5	3.1	3.0

Source: Suqian ETDZ Management Committee, CCXAP research

Government’s Willingness to Provide Support**Position as a comprehensive service operator for industrial investment and development in Suqian ETDZ**

There are three main SOEs in Suqian ETDZ, which are JSHY, Suqian Guokai Investment Holding Group Co., Ltd. (“SQGK”) and Suqian Huirong Holding Group Co., Ltd. (“SQHR”), and each has a clear functional position under the planning of the Management Committee of Suqian ETDZ. JSHY is positioned as a comprehensive service operator for industrial investment and development in Suqian ETDZ. SQGK is positioned as comprehensive operator for urban infrastructures, mainly engaging in infrastructure construction, affordable housing construction, urban engineering and landscaping within Suqian ETDZ. SQHR is positioned as a comprehensive operator of industrial financial services in Suqian ETDZ, mainly covering financing guarantees, entrusted loans, financial leasing, fund management, equity investment, industrial investment, and non-performing asset disposal.

JSHY focuses on the construction and operation of industrial estate, building and supporting facilities in Suqian ETDZ according to the planning of the Management Committee of Suqian ETDZ, which is conducive to the

investment promotion and industrial development of Suqian ETDZ. The success of the Suqian ETDZ is important to the industrial and economic development of the Suqian City as its industrial output is an important part of Suqian City. Most of JSHY's assets have already been leased to enterprises located in Suqian EDTZ and there were several industrial park projects under construction. JSHY also provides professional services for settled enterprises such as security services, financial and taxation services, and human resource services, which continuously optimize the regional business environment within Suqian ETDZ. Besides, the Company will develop supporting facilities such as photovoltaic power generation, water supply and sewage treatment which helps promote the low-carbon greening transformation of Suqian ETDZ.

JSHY has undertaken an urban construction project in Suqian ETDZ, the Sankeshu Urban Renewal Project. The Sankeshu Urban Renewal Project has not been completed with an actual investment of approximately RMB1.1 billion. The Company may receive payments based on cost with a markup of 20%. In 2022, JSHY has recognized revenue of RMB55.2 million from urban construction project income, while has not yet received government repurchase funds. In addition, there are no urban construction projects under construction or planning.

Medium risk exposure to commercial activities

JSHY is exposed to business risk from its commercial activities which are mainly industrial park construction and operation and human resource services. Based on our assessment, such businesses contribute to around 30% of the Company's total assets. We consider the risk exposure to commercial activities is considered as medium reflecting the Company's prudent measures in engaging and managing such businesses.

The construction and operation of the industrial parks sector represent a large contribution to JSHY's revenue and profit. The Company is engaging in such business under the local government's overall planning, aiming to promote investment attraction. The Company's leasable assets include industrial plants, office buildings, apartments and supporting infrastructure such as hotels and supermarkets, all of which are located in Suqian ETDZ. Those assets are acquired through self-constructing, purchasing and transferring from the Management Committee of Suqian ETDZ. As of 30 September 2023, the leasable area of its operating assets was approximately 1.4 million square meters, of which 1.1 million square meters with an occupancy rate of around 80% were transferred from the local government. The exposure to such business is expected to increase as there is large outstanding investment for industrial parks. The high occupancy rate of operated assets and the good operating environment of Suqian ETDZ could partially mitigate business risk. As of 30 September 2023, JSHY has 2 industrial park projects under construction, namely Technology Business Incubation Park and Photovoltaic New Energy Industrial Park. The total investment of these two projects was RMB1.8 billion and the outstanding investment was RMB1.0 billion. Specifically, the Technology Business Incubation Park is expected to achieve financial balance through a combination of leasing and selling. Photovoltaic New Energy Industrial Park will be leased to Canadian Solar Group Co., Ltd. and sold after meeting certain conditions. In addition, JSHY had 5 construction projects under planning with the total investment amount of RMB2.4 billion, which included standard factories, apartments and talent market. Since most of the Company's construction projects are in line with the local government's development plan, it has received support from the government's special funds for project construction.

JSHY will be engaging in self-operated projects such as operating supporting facilities in Suqian ETDZ. As of 30 September 2023, the Company has three self-operated projects under construction with a total investment of RMB511 million, including a rooftop distributed photovoltaic power generation project, a recycled water plant and pipe network project, and a sewage treatment plant and pipe network project. The Company is expected to

generate income from electricity sales, water supply and sewage treatment when they are in operation. All these services are provided to enterprises in the Suqian ETDZ.

Track record of receiving government support

JSHY has a track record in receiving government support mainly in terms of capital injection and equity transfer. As of 30 September 2023, JSHY's capital reserves increased to RMB4.8 billion from RMB903.0 million at end-2021, mainly due to the continuous support received from the local government such as project capital injections and equity transfers. From 2021 to 2023Q3, the Company has received cash as project capital totaling RMB550.0 million. In June 2023, the Management Committee of Suqian ETDZ issued an equity transfer document to transfer the equity of three companies holding industrial resources to the Company. Those stakes were obtained through a capital increase and share expansion, which was completed before 30 September 2023, but the official alteration of registration will be completed in June 2024. Based on the government document, the Company already had actual control over these three companies. Meanwhile, since most of the Company's construction projects are in line with the local government's development plan, it has received support from the government's special funds for project construction. However, the predictability of receiving government payments is moderate as its business is seldom directly related to the local government.

Exhibit 5. Government support from 2021 to 2023Q3

(RMB million)	2021FY	2022FY	2023Q3
Government Subsidies	-	8.0	-
Cash Injections	826.9	-	285.0
Equity Injections	-	-	3,089.6
Total	826.9	8.0	3,374.6

Source: Company information, CCXAP research

JSHY plays an important role in promoting the infrastructure construction of Suqian ETDZ, and has a strong importance to investment attraction and industrial development. Therefore, we expect that the local government will continue to support its development when necessary.

Increasing debt level driven by construction projects financing

JSHY has shown a rising debt level for the past 24 months with the progress of construction projects. JSHY's total debt increased to RMB3.7 billion at the end of September 2023, from RMB988.6 million at end-2021. The capitalization ratio, as measured by total debt to total capital, increased to 31.1% from 18.5% during the same period. JSHY's debt structure is reasonable as short-term debt accounted for approximately 7.5% of the total debt. However, with the continuous investment in projects, JSHY's cash and cash equivalents continued to be consumed and its cash to short-term ratio decreased to 0.6x at the end of September 2023. Considering the ongoing investment of the Company, we expect that it still needs to rely on external financings to meet its capital expenditure needs and the debt will continue to increase in the next 12-18 months.

Moderate access to funding channels

JSHY has moderate access to funding and relies highly on indirect financing and secured debt with a limited track record in accessing the domestic debt market at present. As of 30 September 2023, the Company's bank loans accounted for more than 85% of the total debt and non-standard financing accounted for around 10% of the total debt. The exposure to non-standard financing products was manageable which are mainly financial leasing with costs of around 5.7%. However, its relatively weak asset liquidity may limit its financial flexibility.

As of 30 September 2023, the Company's inventories and other receivables accounted for 63.3% of total assets, which are mainly construction costs and receivables from other local enterprises. On top of that, part of JSHY's inventories and investment properties has pledged for loans, with a total restricted amount of RMB2.5 billion, accounting for 34.6% of total assets.

Nevertheless, the Company's good relationship with large domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk. It maintains long-term relationships with large domestic banks, such as the Agricultural Bank of China and Industrial Bank Co., Ltd. As of 30 September 2023, the Company had total bank facilities of RMB6.4 billion, with an available portion of RMB3.2 billion.

ESG Considerations

JSHY faces environmental risks because it has undertaken construction business. 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.

JSHY bears social risks as it implements public policy initiatives by building public infrastructure in Suqian EDTZ. 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.

JSHY's governance considerations are also material as the Company is subject to oversight by the Suqian EDTZ Government and must 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 \(July 2022\)](#).

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