

## Credit Opinion

23 February 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub> -
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Jining Taibai Lake Holdings Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Jining Taibai Lake Holdings Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Jining Taibai Lake Holdings Group Co., Ltd. (“JTLH” or the “Company”) reflects Taibai Lake New Area Government’s (1) relatively strong capacity to provide support, 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 Taibai Lake New Area’s important position as the administrative and business center, scientific and educational cultural base, leisure and vacation destination, and eco-friendly livable area of Jining City.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in the social and industrial development of Taibai Lake New Area; and (2) solid track record of receiving government supports.

However, the Company’s rating is constrained by its (1) medium exposure to commercial activities with relatively large capital expenditure pressure; and (2) moderate access to funding with high concentration on bank loans.

The stable outlook on JTLH’s rating reflects our expectation that the Taibai Lake New Area Government’s capacity to provide support will be stable, and the Company’s characteristics such as its essential role in the social and industrial development of Taibai Lake New Area will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Essential role in the social and industrial development of Taibai Lake New Area
- Medium exposure to commercial activities with relatively large capital expenditure pressure
- Solid track record of receiving government supports
- Increasing debt burden driven by investment needs in construction projects
- Moderate access to funding with high concentration on bank loans

## 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 strengthens the local government's willingness to provide support, such as reduced exposure to commercial activities and improved financing ability.

### 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, deteriorated debt management, or significantly increased exposure to commercial activities.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	5.0	7.4	9.3	10.4
Total Equity (RMB billion)	1.4	2.9	3.7	4.2
Total Revenue (RMB billion)	0.5	0.7	0.7	0.5
Total Debt/Total Capital (%)	57.3	42.5	42.3	51.5

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

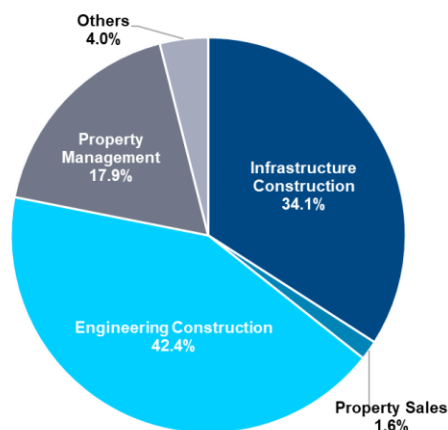
Source: Company data, CCXAP research

## Corporate Profile

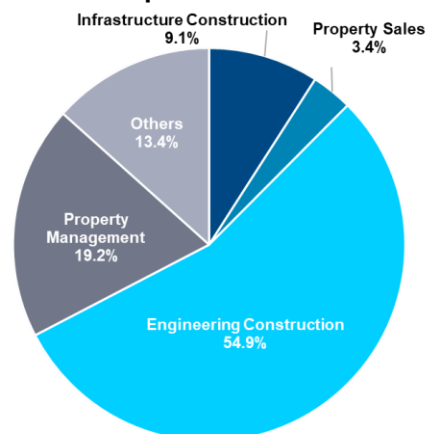
Founded in 2020, JTLH is the most important local infrastructure investment and financing company ("LIIFC") in Taibai Lake New Area after consolidation of local state-owned enterprises. As the key investment and operational entity in infrastructure construction, comprehensive urban operation services, cultural tourism industry, and intelligent manufacturing industry construction, the Company plays an irreplaceable role in the regional economic development. It is mainly responsible for infrastructure construction and resettlement housing development in Taibai Lake New Area. The Company diversified its business into self-owned projects construction and operation, property sales, cultural tourism, leasing, financial investment, and property management. As of 30 September 2023, Jining North Lake Provincial Tourism Resort District Finance Bureau directly had 100% ownership of JTLH, the Management Committee of Jining Taibai Lake New Area ("the Management Committee of JTLNA") was the ultimate controller of the Company.

**Exhibit 1. Shareholding chart as of 30 September 2023**

Source: Company data, CCXAP research

**Exhibit 2. Revenue structure in 2022**

Source: Company data, CCXAP research

**Exhibit 3. Gross profit structure in 2022****Rating Considerations****Government's Capacity to Provide Support**

We believe Taibai Lake New Area Government has a relatively strong capacity to provide support given its important position as the administrative and business center, scientific and educational cultural base, leisure and vacation destination, and eco-friendly livable area of Jining City.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Located in the southern part of Shandong Province, Jining City is one of the central cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Thanks to its diversified industrial structure such as coal mining, machinery and equipment manufacturing, paper and paper products, chemical industry goods, and textiles, Jining City's economic strength and fiscal strength had been steadily improved over the past three years. In 2022, it reported a GRP of RMB531.7 billion, representing 4.4% year-over-year ("YoY") growth, and general budgetary revenue of RMB44.8 billion. However, Jining City has moderate fiscal metrics and a moderate debt profile. The Jining Municipal Government's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 60% over the past three years. Affected by the tax refund policy, tax incomes decreased to RMB30.2 billion in 2022 from RMB33.2 billion in 2021, accounting for 67.4% of its general budgetary revenue. As of 31 December 2022, its government debt to GRP ratio was 28.5%. In 2023, Jining City's GRP further increased to RMB551.6 billion, representing 6.5% YoY growth.

**Exhibit 4. Key economic and fiscal indicators of Jining City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	449.4	507.0	531.7
GRP Growth (%)	3.6	8.5	4.4
General Budgetary Revenue (RMB billion)	41.2	44.1	44.8
General Budgetary Expenditure (RMB billion)	69.6	72.7	74.7
Local Government Debt (RMB billion)	109.5	134.5	151.4

Source: Jining Municipal Government, CCXAP research

Established in February 2008, Taibai Lake New Area is a provincial-level economic development zone located in the southern part of Jining City Centre. Taibai Lake New Area is pointed as the administrative and business center, scientific and educational cultural base, leisure and vacation destination, and eco-friendly livable area of Jining City. Supported by its natural resource advantages and years of industrial development, Taibai New Area has developed “2+3+N” industrial pattern, including 2 pillar industries namely cultural tourism, intelligent manufacturing, 3 emerging industries namely business and finance, science and education services, and health and wellness childcare, as well as a series of potential industries. In 2023, the Taibai Lake New Area was officially recognized by Shandong Provincial Development and Reform Commission as the entrepreneurial investment agglomeration area in Shandong Province, becoming the sole provincial-level demonstration carrier for entrepreneurial investment in Jining City. Taibai New Area recorded a continuous economic growth over the past three years. Its GRP was RMB5.5 billion in 2022, increasing by 3.5% YoY. In 2022, the local government’s general budget revenue was RMB 1.8 billion, remaining similar to that in 2021, due to the reduction in tax revenue resulting from the government’s tax refund policy and the reduction in revenue of local enterprises. Meanwhile, the management committee of Taibaihu New Area has good financial self-sufficiency with fiscal balance ratios above 140% over the past three years. However, Taibai New Area Government’s debt burden is relatively high. As of 31 December 2022, Taibai New Area Government’s outstanding government debt was RMB7.3 billion, accounting for 131.8% of its GRP.

**Exhibit 5. Key economic and fiscal indicators of Taibai Lake New Area**

	2020FY	2021FY	2022FY
GRP (RMB billion)	4.8	5.2	5.5
GRP Growth (%)	4.3	9.5	3.5
General Budgetary Revenue (RMB billion)	1.5	1.8	1.8
General Budgetary Expenditure (RMB billion)	0.9	1.2	1.3
Local Government Debt (RMB billion)	5.8	6.7	7.3

Source: Management Committee of Taibai Lake New Area, Company data, CCXAP research

**Government’s Willingness to Provide Support****Essential role in social and industrial development of Taibai Lake New Area**

There were originally more than 20 state-owned enterprises in the Taibai Lake New Area. After the consolidation of 19 state-owned enterprises in 2020, the Company became the most important LIIFC in Taibai Lake New Area. JTLH shoulders the responsibilities of infrastructure construction and resettlement housing development in Taibai Lake New Area. It has completed several projects since its establishment including kindergarten construction, subsidence zone management, shantytown renovation and road construction, with total invested amount of RMB3.0 billion. These projects are all closely linked to the welfare of the local residents.

JTLH mainly conducts infrastructure construction and other related projects through agency construction. Under the agency construction model, the Company signs an agency agreement with the Management Committee of JTLNA. After the project is completed and passed the acceptance examination, the local government pays the project fee based on the project audit cost plus a certain markup. As of 30 September 2023, the Company had 8 projects under construction, with a total investment of RMB6.7 billion and an uninvested amount of RMB4.5 billion, which mainly includes big data infrastructure construction projects, cultural infrastructure construction projects, resettlement housing, industrial parks, underground pipeline corridors, co-living communities, and cultural and tourism projects. The Company is also active in the infrastructure construction business through engineering construction with relevant construction qualifications.

Overall, JTLH has a large scope for development and a strong capacity for business sustainability in Taibai Lake New Area. We believe that the Company will maintain an important position in the area and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **Medium exposure to commercial activities with relatively large capital expenditure pressure**

JTLH engages in various commercial activities including self-owned projects construction and operation, property sales, cultural tourism, leasing, financial investment, and property management. These commercial activities may also entail higher operational and business risks compared to public policy activities. At the same time, large capital expenditures will be incurred, which will exert financing pressure on the Company. The Company's commercial activities account for more than 30% of its total assets, while projects that involve self-operated industrial parks and cultural, tourism and healthcare are closely linked to local industrial development. They are likely to receive favorable policy support from the government.

The Company engages in self-operated projects construction and operation. As of 30 September 2023, there were 5 self-operated industrial park related projects under construction, with a total investment of RMB10.3 billion and an uninvested amount of RMB7.6 billion. These projects are expected to balance the fund through leasing or sales. The construction and development of these industrial parks is in line with local development blueprint and aims to promote local industrial development. However, future investment pressure is high for JTLH and the operation of these self-operated projects bears more uncertainties in project return.

The Company carries out self-operated cultural, tourism and healthcare projects through cooperation with other companies. As at 30 September 2023, the Company had 3 projects under construction with total estimated investment of RMB5.5 billion and subscribed capital of RMB3.7 billion. The Company's culture, tourism and healthcare projects aim to promote the development of the cultural industry in Taibai Lake New Area and Jining City and are closely related to the local pillar industry. However, as the revenue from the operation of the cultural, tourism and healthcare projects is limited due to the early stage of these projects and the outstanding investment is relatively large, it is expected that the Company will continue to require large capital expenditure to construct and operate these projects in the future, which would further increase the Company's capital expenditure burden. We should keep attention to the subsequent operation of the projects.

JTLH's property development business is mainly engaged in commercial housing projects. As of 30 September 2023, the Company had a completed commercial housing project, Zhuangguan Yaju, with a total investment of RMB143 million and selling ratio of around 86.2%. Meanwhile, the Company had one commercial housing projects under planning with a planned total investment of RMB385 million. During a downturn in the Chinese property market, the fund balance of this business would suffer from high volatility due to the uncertainty of construction and sales progress.

The Company conducts in financial investment through equity investment and industrial fund investment. The Company's financial investment is mainly for industrial upgrading in Taibai Lake New Area and Jining City. The Company has invested in various industries such as intelligent equipment manufacturing, information technology, finance, commerce, tourism, and education. As of 30 September 2023, the Company had 15 major equity investment projects with a total book value of investment amount of RMB1.1 billion. However, the majority of the equity investment companies are local private enterprises, which have higher operational risks during a market downturn. In terms of fund investment, as at 30 September 2023, the Company had invested in 2 industrial funds with a total paid-up capital of RMB5.1 million. The financial investment business is subject to instability due to the performance of the invested companies and the changing economic situation. In addition, the investment business is at an early stage.

### **Solid track record of receiving government support**

JTLH has received ongoing support from the local government, including project payments, operating subsidies, and capital injections. From 2020 to 2023Q3, the Company received a total of RMB98.0 million in financial subsidies. At the same time, the government transferred equities of some local state-owned enterprises to JTLH, which increased its capital strength and enlarged its business scope. Thanks to the ongoing support from local government, the Company's capital reserve increased from RMB1.1 billion in 2020 to RMB3.5 billion in 2023Q3.

Due to its important position in the infrastructure construction of the Taibai Lake New Area, the Company also continues to receive project repayments from the government. From 2020 to 2023Q3, the cumulative payments from the local government for infrastructure construction projects amounted to RMB823.9 million. Meanwhile, the Company received a total of RMB497.7 million in special government bonds to support the construction of its projects during the same period. Given its important role in the Taibai Lake New Area, we expect the Company to continue to receive support from the local government in the next 12 to 18 months.

### **Increasing debt burden driven by investment needs in construction projects**

Taking into account the ongoing financing of construction projects, the Company's total debt has grown at a reasonable rate over the past three years. The Company's total debt rose from RMB1.8 billion in 2020 to RMB3.1 billion in 2023Q3, with the annual debt growth rate between 15% and 25%. Meanwhile, its capitalization ratio decreased from 57.3% to 42.4% due to continuous asset injection from local government. The Company also has a relatively good debt structure. As of 30 September 2023, the Company's short-term debt amounted to RMB755.6 million, accounting for 24.4% of the total debt. Moreover, its cash to short-term debt ratio was around 1.2x, indicating the Company has adequate liquidity to cover its short-term debt repayment. However, given the Company's large capital expenditure needs, we still need to pay attention to the Company's debt growth over the next 12 to 18 months.

### **Moderate access to funding with high concentration on bank loans**

JTLH has moderate access to funding, relying heavily on bank loans. The limited financial resources would bring higher refinancing pressure. The Company has good long-term relationships with several banks such as China Development Bank, Agricultural Development Bank of China, and Bank of Jining Co., Ltd. As of 30 September 2023, the Company had obtained total credit facilities of RMB4.0 billion, with an unused amount of RMB1.5 billion. The policy bank credit facilities accounted for 77.0% of the total bank facilities. The loans from policy banks generally have relatively low financing cost and long loan-term, which could partially mitigate JTLH's refinancing pressure and reduce its financing costs. The Company has manageable exposure to non-

standard financing products. As of 30 September 2023, non-standard financing accounted for less than 10% of total debt. Most of this non-standard financing comes from local village loans and commercial factoring.

## ESG Considerations

JTLH faces environmental risks because it has undertaken infrastructure construction in Taibai Lake New Area. 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.

JTLH bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Taibai Lake New Area. 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.

JTLH'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.

## Structural Considerations

JTLH's senior unsecured debt rating is in equivalent to its long-term credit rating. We believe that government support will flow through the Company given its essential role in the social and industrial development of Taibai Lake New Area, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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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