

Credit Opinion

27 February 2024

Ratings

Senior Unsecured Debt Rating	BBB _g -
Long-Term Credit Rating	BBB _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Christy Liu +852-2860 7130
Credit Analyst
christy_liu@ccxap.com

Allen Lin +852-2860 7128
Credit Analyst
allen_lin@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Jiaxian State-owned Capital Operation Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiaxian State-owned Capital Operation Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiaxian State-owned Capital Operation Group Co., Ltd. (“JXSC” or the “Company”) reflects Jia County 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 Jia County Government’s capacity to support reflects Jia County’s increasing economic strength, but constrained by its relatively weak fiscal balance.

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

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) tight liquidity profile with insufficient bank credit facilities; and (3) medium exposure to contingent liability risk, with a high recovery risk from receivables.

The stable outlook on JXSC’s rating reflects our expectation that the Jia County Government’s capacity to provide support will be stable, and the Company’s significant role in local infrastructure construction and primary land development of Jia County will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Significant role in local infrastructure construction and primary land development
- Solid track record of receiving government supports
- Medium exposure to commercial activities
- Increasing debt level, but with a reasonable debt leverage
- Tight liquidity profile with insufficient bank credit facilities
- Medium exposure to contingent liability risk, with a high recovery risk from receivables

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jia County Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Jia County Government's capacity to 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 regional significance or materially increased exposure to risky commercial activities or deteriorated debt management.

Key Indicators

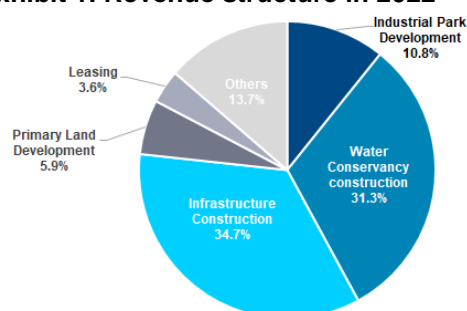
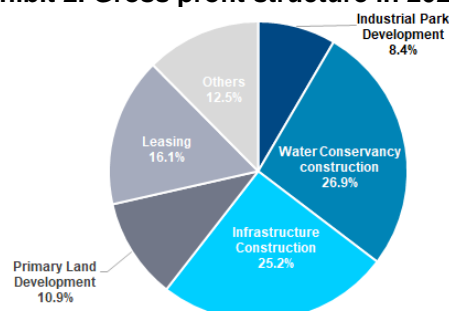
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	13.1	14.9	21.3	21.3
Total Equity (RMB billion)	9.8	10.2	15.8	15.8
Total Revenue (RMB billion)	0.9	0.9	1.0	0.7
Total Debt/Total Capital (%)	13.9	18.9	15.4	14.1

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2015, JXSC is one of the three most important infrastructure investment and financing companies ("LIIFCs") in Jia County after the consolidation of local state-owned entities. In 2022, the local government transferred 100% of its shareholding in Jiaxian Development Investment Group Co., Ltd. ("JXDI") to JXSC. JXDI is one of the major LIIFCs in Jia County, with total assets of RMB13.4 billion as of end-2022. The Company then became the largest LIIFC in terms of total assets in Jia County, mainly responsible for infrastructure construction and primary land development in Jia County. JXSC also engages in commercial activities, such as self-owned projects construction and operation, sand and gravel sales, and leasing. As of 18 January 2024, the Company was wholly owned by the State-owned Assets Service Center of Jia County, and the Jia County Government was the ultimate controller of JXSC.

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 Jia County Government has a relatively strong capacity to provide support, reflecting Jia County's increasing economic strength, but constrained by its relatively weak fiscal balance.

Henan Province is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's gross regional product ("GRP") has been ranking 5th among all provinces in China from 2020 to 2022. Pingdingshan City is located in the central of Henan Province, which is an important energy and industrial base in the Central Plains Economic Region. After years of development, Pingdingshan City has established five pillar industries, including energy, chemical, equipment manufacturing, metallurgical building materials, and textiles and food industries.

Pingdingshan City's economic strength continued to increase over the past three years. In 2022, it maintained a steady growth rate of 4.1% year-over-year ("YoY") and its GRP has reached RMB283.9 billion from RMB245.6 in 2020. With the improving economic strength, the Pingdingshan Municipal Government's general budgetary revenue has increased to RMB22.6 billion in 2022 from RMB18.1 in 2020. However, the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was maintained at a moderate level of 54.3 % in 2022. As of end-2022, the outstanding direct government debt amounted to RMB58.1 billion, accounting for 20.5% of its GRP. In the first three quarters of 2023, Pingdingshan City's GRP achieved RMB222.1 billion, an increase of 3.5% YoY.

Exhibit 3. Key economic and fiscal indicators of Pingdingshan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	245.6	269.4	283.9
GRP Growth (%)	3.2	7.7	4.1
General Budgetary Revenue (RMB billion)	18.1	20.3	22.6
General Budgetary Expenditure (RMB billion)	40.8	33.6	41.6
Local Government Debt (RMB billion)	34.3	52.0	58.1

Source: Pingdingshan Municipal Government, CCXAP research

Jia County is located in the west-central part of Henan Province, which is the county under direct financial control of Henan Province. It has formed two pillar industries, namely equipment manufacturing and medicine. Jia County is also a major agricultural county, with a steady development of agricultural production. Jia County has demonstrated ongoing economic growth over the past three years. It recorded a GRP of RMB20.7 billion,

RMB22.6 billion, and RMB23.3 billion in 2020, 2021, and 2022, with growth rates of 3.5%, 9.5%, and 4.1%, respectively. In 2022, Jia County Government's general budgetary revenue increased to RMB1.3 billion from RMB1.0 billion in 2020. Tax, a relatively stable income source, was recorded at RMB917 million in 2022, accounting for 70% of its general budgetary revenue. However, Jia County has maintained a relatively weak fiscal balance with an average fiscal balance ratio around 37.4% over the past three years. Jia County highly relied on transfer income from higher tier government. As of 31 December 2022, the outstanding debt of Jia County Government was RMB3.8 billion, accounting for 16.4% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Jia County

	2020FY	2021FY	2022FY
GRP (RMB billion)	20.7	22.6	23.3
GRP Growth (%)	3.5	9.5	4.1
General Budgetary Revenue (RMB billion)	1.0	1.2	1.3
General Budgetary Expenditure (RMB billion)	3.3	2.6	3.9
Local Government Debt (RMB billion)	2.1	2.9	3.8

Source: Jia County Government, CCXAP research

Government's Willingness to Provide Support

Significant role in local infrastructure construction and primary land development

As one of the three most important LIIFCs in Jia County, JXSC has a significant role in local infrastructure construction and primary land development. The other two major LIIFCs are Jiaxian Kaifa Investment Group Co., Ltd. ("JXKF") and Jiaxian Urban Construction Investment Co., Ltd. ("JUTC"). JXKF is mainly responsible for the industrial park development, infrastructure and supporting construction of industrial parks in the Economic and Technological Development Zone of Jia County, while JUTC is mainly responsible for old infrastructure construction in Jia County.

The Company mainly undertakes infrastructure construction through agency construction model and self-construction model. Under agency construction model, JXSC and its subsidiary JXDI sign entrusted development agreement with JUTC or other local state-owned enterprises, and would receive the construction costs plus certain markup according to the construction progress at the end of year. The Company is in charge of project financing and construction. As of 30 September 2023, the Company had completed 12 key projects since its establishment, including road construction, parks, and comprehensive improvement of water system, with a total invested amount of RMB1.4 billion. Meanwhile, there were 21 projects under construction and planning under agency construction model, with a total investment amount of RMB3.0 billion and an uninvested amount of RMB1.0 billion.

The Company also has some projects under self-construction model, including resettlement housing, utility tunnel, as well as rural drinking water safety project. The Company would achieve fund balancing through operation income, such as water supply and sewerage income. These projects are closely linked to the welfare of the local residents. As of 30 September 2023, the Company had 3 projects under construction, with a total investment of RMB2.4 billion and an outstanding investment of RMB1.8 billion. However, the large number of uninvested construction projects would bring relatively large capital expenditure pressure to the Company.

JXSC also conducts primary land development through its subsidiary JXDI. JXDI signs land development agreement with Jia County Government annually and is responsible for fund raising activities for land development business in Jia County. According to the agreement, the local government would provide land

subsidy as project repayment to JXDI every year. From 2020 to 2023Q3, the Company has completed land development of 1,771 mu. As of 30 September 2023, the Company was planning to develop land of 188 mu, with a total investment of RMB28.2 million.

Overall, JXSC's land consolidation and infrastructure construction projects are essential to both the local residents and the development blueprint of the local government. Sufficient project reserves also ensure the sustainability of Company's development, and therefore we believe that JXSC will not be easily replaced by other state-owned enterprises in the foreseeable future.

Medium exposure to commercial activities

JXSC participates in commercial activities such as self-owned projects construction and operation, sand and gravel sales, and leasing. We consider that the JXSC's exposure to commercial activities is medium, as they accounted for around 25%-30% of its total assets in our estimation.

JXSC conducts self-operated projects construction to promote local economic and industrial development. As of 30 September 2023, there were 3 projects under construction, including standard factory, office building, and steel market, with a total investment amount of RMB630 million and an uninvested amount of RMB331 million. The Company is expected to achieve fund balancing through leasing and sales while the investment recovery cycle of these self-operated constructions is long subject to operating uncertainties.

The Company participates in sand and gravel sales business through its subsidiary. JXSC is responsible for the mining and sales of sand and gravel in the river from Zhaozhai Village to Linhe Village in Xuedian Town, with a total permitted mining volume of 1.2 million cubic meters. However, JXSC's total mining volume nearly reached the limit in 2022, the revenue of sand and gravel sales business sharply decreased from RMB14 million in 2020 to RMB400 thousand in 2022. Although, the local government has transferred new sand and gravel resources with a book value of RMB5.3 billion to the Company in December 2022, the new sand and gravel resources has not incurred any revenue. There are some uncertainties in the future revenue of the Company's sand and gravel mining business.

Solid track record of receiving government supports

JXSC has a solid track record of receiving support from the local government in the form of capital injection, asset injections, and financial subsidies to support its investments and the operation of its businesses. In 2022, the local government injected assets and capital into JXSC, mainly including sand and gravel resources, increasing capital reserve of the Company by RMB5.4 billion. Apart from that, the local government also transferred 100% share of JXDI to the Company in 2022, which enlarged JXSC's business scope and further strengthened its capital base. From 2020 to 2023Q3, the local government provided subsidies of RMB301.8 million to the Company to support its operation and development.

Considering its significant role in local infrastructure construction and primary land development of Jia County, we expect the local government will continuous to provide support to the Company.

Increasing debt level, but with a reasonable debt leverage

Due to the ongoing investment of construction projects, the Company's total debt has been increasing over the past three years. As of 30 September 2023, the Company's total debt rose to RMB2.6 billion from RMB1.6 billion as of end-2020. Its capitalization ratio, as measured by total debt to total capital, was maintained at a reasonable level of around 14%. The Company also has a relatively good debt structure. As of 30 September 2023, the

Company's short-term debt amounted to RMB458 million, accounting for around 18% of the total debt. However, its cash to short-term debt ratio excluding restricted cash was around 0.2x, which means the Company has certain short-term debt burden. Moreover, the Company is planning to invest around RMB3.2 billion for its infrastructure construction and self-operated projects. Considering the Company's large capital expenditure needs, we expect the debt burden of the Company would further increase over the next 12 to 18 months.

Tight liquidity profile with insufficient bank credit facilities

JXSC has a fair access to funding channels such as bank loans and onshore bonds. Bank loans contribute the majority of total debt, which accounted for around 80% as of 30 September 2023. As of the same date, the Company had obtained total bank facilities of RMB2.1 billion, with an unutilized portion of only RMB154.5 billion, indicating insufficient credit facilities. Bank loans are mainly provided by Agricultural Development Bank of China and regional banks in Henan Province. The Company also has a track record for fund-raising activities in capital market. In 2020, the Company's subsidiary JXDI issues one tranche of domestic bonds, raising RMB670 million. We expect the Company to expand its financing channels to fulfil its future capital expenditure needs for infrastructure projects.

Medium exposure to contingent liability risk, with a high recovery risk on receivables

The Company bears medium exposure to contingent liability risk, which could potentially increase its repayment obligations. As of 30 September 2023, the Company's external guarantees amounted to around RMB472 million, accounting for less than 5% of its net assets, most of which were provided to local state-owned enterprises. The Company also provided external guarantees of around RMB50 million to some private-owned enterprises, accounting for around 11% of the total external guarantees. Some of the guarantees are listed as judgement debtors for multiple times, while some of the guarantees had interest arrears and overdue payments. JXSC's subsidiary JXDI has also been listed as a judgement debtor for several times due to the external guarantees provided to JXUC. The external guarantees provided to JXUC was RMB226 million, accounting for more than 40% of its total external guarantee amount, which may expose the Company to higher contingent liabilities risk.

In addition, there is a risk of recovery for its receivable accounts. The Company's receivables contain infrastructure project payments and current accounts receivable from JXUC, the People's Hospital of Jia County, and Maternal and Child Health Hospital of Jia County, which were listed as judgement debtors for multiple times, indicating certain liquidity issue of these debtors. The Company had a total amount of receivables of around RMB1.8 billion from these three enterprises as of 30 September 2023.

ESG Considerations

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

JXSC bears social risks as it implements public policy initiatives by building public infrastructure in Jia 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.

JXSC's governance considerations are also material as the Company is subject to oversight by Jia County Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

JXSC's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its significant role in local infrastructure construction and primary land development of Jia County, 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 \(July 2022\)](#).

Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656