Credit Opinion

13 March 2024

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

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Jining High-tech Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jining High-tech Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook. Summary

The BBB_g long-term credit rating of Jining High-tech Holding Group Co., Ltd. ("JHHG" or the "Company") reflects Jining High-tech Zone Government's strong capacity to provide support and very high willingness to support, based on our assessment of the Company's characteristics.

Our assessment of Jining High-tech Zone Government's capacity to provide support reflects Jining High-tech Zone's status as a national-level high-tech industrial development zone, as well as the local government's sound economic fundamentals and moderate fiscal profile.

The rating also reflects the local government's very high willingness to provide support, which is based on the Company's (1) full and direct ownership by the Jining High-tech Zone Government; (2) high strategic importance in infrastructure construction and provision of public services in Jining High-tech Zone; and (3) proven track record of receiving government support.

However, the rating is constrained by the Company's (1) increasing exposure to commercial activities; (2) rapid debt growth and moderate asset liquidity; and (3) contingent risks arising from relatively large scale of external guarantees.

The stable outlook on JHHG's rating reflects our expectation that Jining High-tech Zone Government's capacity to provide support will be stable, and that the Company will maintain its important role in local infrastructure construction, shantytown renovation projects, and heating supply in Jining High-tech Zone over the next 12 to 18 months.

Rating Drivers

- High strategic importance in infrastructure construction and provision of public services
- Proven track record of receiving government support
- Increasing exposure to commercial activities
- Good access to diversified financing channels
- Rapid debt growth and moderate asset liquidity
- Contingent risks arising from relatively large scale of external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jining High-tech Zone Government’s capacity to 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, improved debt management and asset quality and reduced exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) Jining High-tech Zone 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 strategic significance, decreased government payments or increased exposure to risky commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	27.8	34.7	39.9	39.1
Total Equity (RMB billion)	11.2	12.9	12.6	12.7
Total Revenue (RMB billion)	5.6	5.9	6.2	3.4
Total Debt/Total Capital (%)	50.9	51.4	57.1	56.7

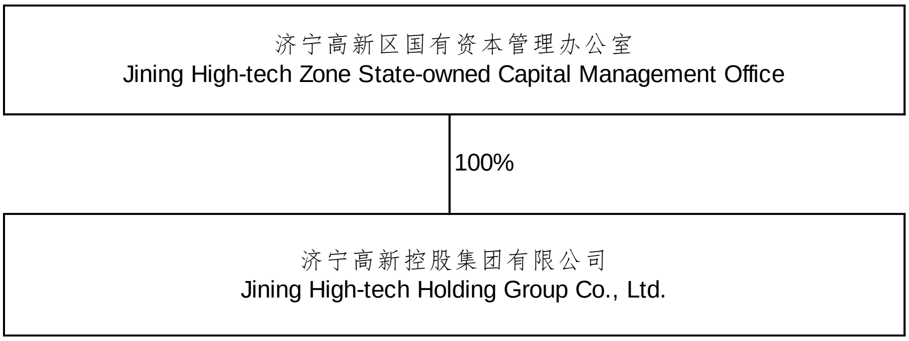
All ratios and figures are calculated using CCXAP’s adjustments.

Source: Company data, CCXAP research

Corporate Profile

Founded in 2009, JHHG is a key local infrastructure investment and financing company (“LIIFC”) in Jining High-tech Zone, and the most of its businesses are undertaken through Jining High Tech Urban Construction Investment Co., Ltd. (“JHUC”). As the main operator and developer, the Company is responsible for infrastructure construction, shantytown renovation projects, and heating supply in Jining High-tech Zone. In addition, the Company also undertakes commercial activities such as system integration and technology development, property development and leasing, commodity trading, as well as industrial investment. As of 30 September 2023, the Company was directly and wholly owned by the Jining High-tech Zone State-owned Capital Management Office (“Jining High-tech Zone SOCMO”).

Exhibit 1. Shareholding and organization chart as of 30 September 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

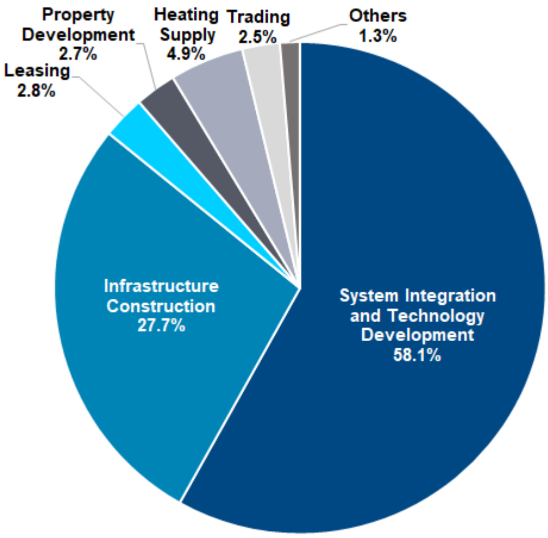
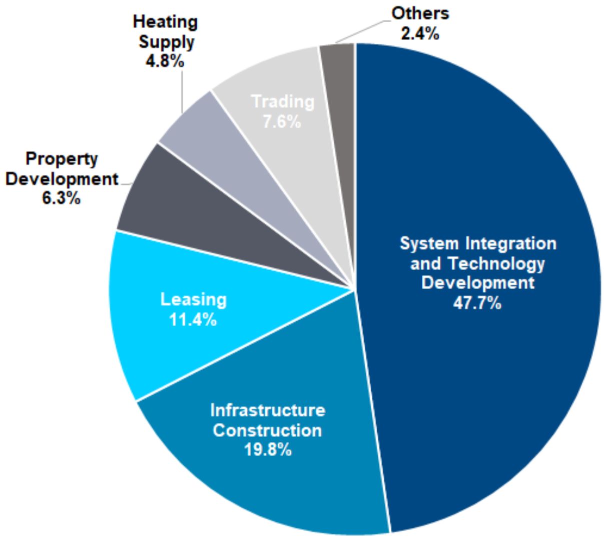


Exhibit 3. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government of Jining High-tech Zone has strong capacity to provide support, given its sound economic fundamentals and moderate fiscal metrics.

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, Jining City reported a GRP of RMB531.7 billion, representing 4.4% year-over-year ("YoY") growth. In 2023, Jining City's GRP further increased to RMB551.6 billion, representing 6.5% YoY growth. However, Jining City has moderate fiscal metrics and a moderate debt profile. The Jining Municipal Government's general budgetary revenue was RMB47.5 billion in 2023, and its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 60% over the past three years. Tax incomes slightly decreased to RMB32.4 billion in 2023 from RMB33.2 billion in 2021, accounting for 68.1% of its general budgetary revenue. As of 31 December 2023, its government debt to GRP ratio was 31.1%.

Exhibit 4. Key economic and fiscal indicators of Jining City

	2021FY	2022FY	2023FY
GRP (RMB billion)	507.0	531.7	551.6
GRP Growth (%)	8.5	4.4	6.5
General Budgetary Revenue (RMB billion)	44.1	44.8	47.5
General Budgetary Expenditure (RMB billion)	72.7	74.7	78.3
Local Government Debt (RMB billion)	134.5	151.4	171.4

Source: Jining Municipal Government, CCXAP research

Jining High-tech Zone was founded in 1992 and was promoted to be a National High-tech Industrial Development Zone in 2010. It is the pilot high-tech zone of national science and technology innovation service system, as well as innovative industrial cluster. In addition, it is the pilot scientific and technological high-tech zone in Shandong Province, which has a population of 250 thousand and an area of 255 square kilometers. It has established four national industrial bases, including engineering machinery, photoelectric information, biotechnology, and new textile materials. In 2022, the GRP of Jining High-tech Zone increased by 4.7% YoY to RMB55.4 billion, representing around 10% of Jining City's GRP, ranking 4th among 13 national-level high-tech zones in Shandong Province. In 2023, Jining High-tech Zone's GRP increased by 7.1% YoY to RMB57.9 billion. Jining High-tech Zone Government has a good fiscal balance. As of 31 December 2022, Jining High-tech Zone's general budgetary revenue to general budgetary expenditure was 153.6%. At the same time, the government debt to GRP ratio was 16.6%.

Exhibit 5. Key economic and fiscal indicators of the Jining High-tech Zone

	2020FY	2021FY	2022FY
GRP (RMB billion)	45.5	53.2	55.4
GRP Growth (%)	4.1	9.1	4.7
General Budgetary Revenue (RMB billion)	4.0	4.3	4.3
General Budgetary Expenditure (RMB billion)	2.6	2.7	2.8
Local Government Debt (RMB billion)	7.6	7.6	9.2

Source: Management Committee of Jining High-tech Zone, CCXAP research

Government's Willingness to Provide Support

High strategic importance in infrastructure construction and provision of public services

As the largest and most important LIIFC in Jining High-tech Zone, JHHG is engaged in infrastructure construction, shantytown renovation projects, and heating supply in the region. The Company's essential arms in infrastructure construction, JHUC and Shandong Jingda Science and Technology Industry Development Co., Ltd., are mainly responsible for the construction or upgrading of educational buildings, hospitals, road reconstructions, and shantytown renovations in the Zone. As of 30 June 2023, it had completed 24 infrastructure projects, with a total investment of RMB7.8 billion and collected government repayments of RMB5.7 billion. Given its important role in local infrastructure construction, we believe that the Company is unlikely to be replaced in the foreseeable future.

Authorized by Municipal Construction Administration of Jining High-tech Zone, the Company undertakes infrastructure construction projects in Jining High-tech Zone under the agency construction model. The Company conducts construction with self-raised funds, receives the construction costs plus 15% after the completion of projects. With the ongoing development of Jining High-tech Zone, the Company is currently focusing on undertaking shantytown renovation projects. Some of these projects are undertaken by signing a government-purchase-service agreement with the local government. The local government will then purchase these projects after the completion in instalments within 15 years. As of 30 June 2023, the Company had 7 infrastructure construction and shantytown renovation projects under construction and 3 projects under planning, with an estimated total investment of RMB16.3 billion and an uninvested amount of RMB11.0 billion. Large-scale projects in the pipelines can ensure the sustainability of the business, but also bring great pressure on the Company's capital expenditure.

In addition, JHHG also provides heating service in Jining High-tech Zone, covering 499 square kilometers in the region, which is highly beneficial to the local residents and enterprises. The Company provides stream supply for industrial enterprises and heat supply for residents and enterprises in the Zone. As of 30 June 2023, the Company owned pipe network with a length of 75 kilometers and 86 heat exchange stations, with heating capacity of over 1 million tons per year. We believe that the Company can maintain its dominant position in the heating supply segment and can generate stable recurring income. We also believe that as this public service is essential for local residents and enterprises, the replacement cost for the Company's role is high.

Proven track record of receiving government support

JHHG has a proven track record of receiving government support in form of capital injections, asset transfers, project payments, and subsidies. In 2020, Jining High-tech Zone SOCMO and Jining Municipal Finance Bureau disbursed project capital and injected cash into JHHG, with a total amount of around RMB141 million. From 2022 to 2023Q3, the Company continued to receive government subsidies to support its daily operation, with a total amount of approximately RMB465 million. As of 30 June 2023, the Company has received government payments of RMB5.7 billion, which were mainly for the completed infrastructure projects under the agency construction model. We expect the Company will continue to receive government support over the next 12 to 18 months, given its strong public policy role and the large number of public projects under construction.

Increasing exposure to commercial activities

JHHG's commercial activities mainly include system integration and technology development, commodity trading, property development and leasing, as well as industrial investment, generating stable operating income. We believe JHHG will increase its exposure to commercial activities in the future as the Company plans to develop several self-operated projects. The increase of investment in self-operated projects and reduction in revenue of its system integration and technology development business may increase the Company's debt burden and bring more uncertainty to the Company's future income.

In 2021, JHHG consolidated a listed company, Ronglian Group Ltd. (Stock Code: 002642.SZ, "Ronglian Group"), to diversify its businesses to system integration and technology development. Ronglian Group provides comprehensive solutions for digital transformation of enterprises and IT infrastructure construction for industry customers with relevant qualifications. This business contributes a major portion of the Company's revenue, generating RMB3.6 billion and RMB1.3 billion in 2022 and the first three quarters of 2023, accounting for 58.1% and 49.7% of the Company's total revenue, respectively. However, affected by factors such as changes in the domestic and foreign economic environment, Ronglian Group's client investment in IT are moderating and it is expected to suffer a significant revenue tumble and report a net loss in 2023, which could also have negative impact on JHHG's financial performance in 2023. In addition, Ronglian Group and some of its senior executives were subject to administrative penalties by the regulatory authority in 2023 due to corporate governance issues such as inaccurate information disclosure and non-standard internal procedures, indicating higher operational risks.

JHHG takes part in the construction and operation of self-operated properties such as research base buildings, industrial parks, logistics parks, and commercial buildings for governmental organs and local enterprises, which are usually leased at low prices under the guidance of local government in order to attract investment. Rental income from leased investment properties had been stable in the past few years. As of 30 June 2023, the Company had 5 leasable projects under construction, with an estimated total investment of RMB6.1 billion and an uninvested amount of RMB1.8 billion. The relatively large investment may bring more pressure to the Company's capital expenditure in the next 12 to 18 months.

Moreover, JHHG is engaged in the property development business, focusing on the sales of residential property projects. The investment for key construction projects is almost completed and no new construction projects are planned. As of 30 June 2023, the Company had one key property project under construction, with a total investment of RMB1.2 billion and accumulated contracted sales of RMB1.1 billion, more than half of the commercial housings were sold. However, during the downturn of China's property market, the fund balancing may suffer from high volatility due to the uncertainty of construction and sales progress.

In addition, the Company is also engaged in commodity trading business, the main products are electrolytic copper, non-ferrous metals, coal, textiles, and construction materials. Although this segment can provide the Company with additional income, the Company is exposed to relatively high concentration risks. The top 5 customers and suppliers accounted for approximately 86.0% and 80.3% of the total sales and total procurement in 2022, respectively. Moreover, the Company started to import wood in 2023, which may be also exposed to currency exchange risk.

Rapid debt growth and moderate asset liquidity

JHHG recorded rapid debt growth due to its debt-driven business expansion in infrastructure and self-operated construction projects over the past few years. As of 30 September 2023, the Company's total debt has increased to RMB16.6 billion from RMB13.7 billion as of end-2021, with a total capitalization ratio of 56.7%. Meanwhile, the Company's cash to short-term debt ratio and short-term debt to total debt ratio were 0.4x and 34.1% respectively, indicating a relatively weak liquidity profile and an unbalanced debt structure.

In addition, JHHG's asset liquidity is moderate. As of 30 September 2023, the Company has certain amount of restricted assets including lands, office buildings, and industrial plants, totaling RMB7.6 billion and accounting for 19.4% of the total assets. In terms of asset structure, inventories, total receivables (account receivables and other receivables), and construction in progress accounted for 70% of its total assets as of the same date. Inventories and construction in progress were mainly the construction costs from infrastructure construction, property development and self-operated projects; while total receivables were mainly receivables from the local government and other state-owned enterprises, all of which are considered low liquidity. Moderate asset liquidity may also undermine the Company's financing flexibility.

Good access to diversified financing channels

JHHG have diversified financing sources including bank loans, onshore and offshore bond issuances. The Company had been highly recognized by policy banks and large domestic banks such as Agricultural

Development Bank of China and Industrial and Commercial Bank of China Limited. As of 31 December 2023, it had obtained total bank credit facilities of RMB24.2 billion, with an unused portion of RMB8.8 billion, indicating a relatively sufficient liquidity buffer. In terms of direct financing, the Company and its subsidiary JHUC issued 7 tranches of domestic bonds, raising RMB3.0 billion from 2023 to February 2024. The Company also stepped into offshore bond market. In 2023, JHHG raised RMB120 million through issuance of one tranche of offshore bond. In addition, the Company had a reasonable exposure to non-standard products, with amount accounting for less than 10% of its total debt.

Contingent risks arising from relatively large scale of external guarantees

JHHG's credit profile is undermined by a relatively large number of external guarantees, which could increase its repayment obligations. As of 30 September 2023, the total amount of external guarantees was RMB3.8 billion, accounting for 30.3% of its net assets. All the external guarantees are provided to Shandong Haida Development and Construction Co., Ltd., and its subsidiaries, which are local state-owned enterprises supervised by the local government.

ESG Considerations

JHHG assumes environmental risks through its infrastructure construction and shantytown renovation projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, the Company, as a public services provider in Jining High-tech Zone, also faces social risks. Demographic changes, public awareness and social priorities shape the government's target for JHHG, which may, affect the government's propensity to support the Company.

In terms of corporate governance, JHHG's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Considerations

JHHG'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 important role in local infrastructure construction, shantytown renovation projects, and heating supply in Jining High-tech Zone, 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).

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.

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