

Credit Opinion

22 March 2024

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

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Amy Chen +852-2860 7140

Assistant Credit Analyst

amy_chen@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

Jiangsu Haihong Investment Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jiangsu Haihong Investment Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Jiangsu Haihong Investment Holding Group Co., Ltd. (“JHIH” or the “Company”) reflects the Haimen District Government’s strong capacity to provide support and its very 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 Haimen District’s status as the third largest district by gross regional product (“GRP”) in Nantong City for years. It has sound economic fundamentals and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the core entity in the construction and operation of affordable housing in Haimen District; (2) solid track record of receiving government support; (3) possession of high-quality leasable assets; and (4) good access to diversified funding.

However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities; (2) high debt leverage and growing debt levels driven by large amount of development pipelines; and (3) high level of external guarantees.

The stable outlook on JHIH’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Haimen District.

Rating Drivers

- Clear and strong strategic position in affordable housing construction in Haimen District
- Solid track record of receiving government support
- Good access to diversified funding
- Medium exposure to commercial activities
- High debt leverage and growing debt levels driven by large development pipelines
- High level of external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management or reduction in exposure to external guarantees.

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 reduced regional significance or weakened access to funding.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	43.9	49.3	53.3	55.4
Total Equity (RMB billion)	16.7	17.6	18.4	18.7
Total Revenue (RMB billion)	2.6	2.8	2.5	2.0
Total Debt/Total Capital (%)	58.3	61.6	63.1	64.1

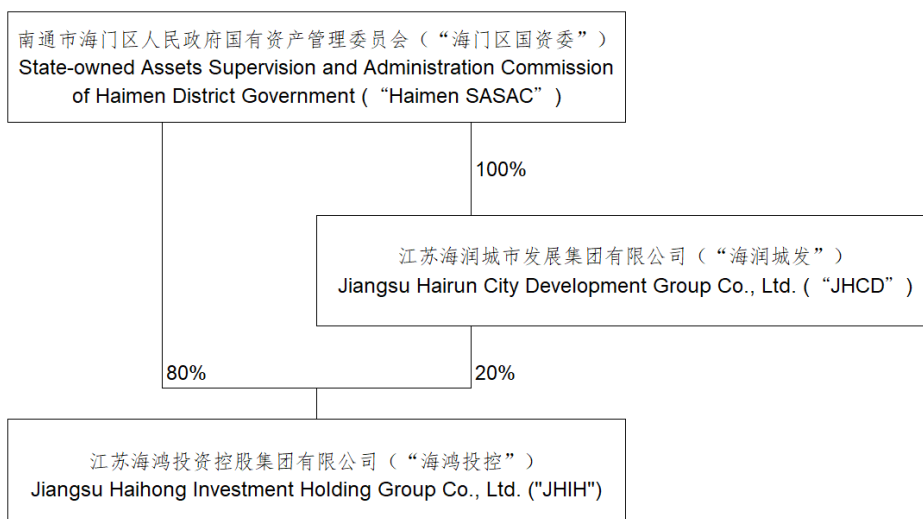
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

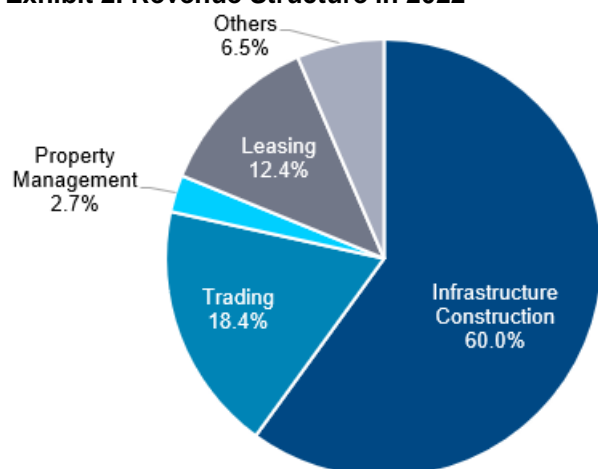
Founded in 2016, JHIH is one of the key local infrastructure investment and financing companies ("LIIFCs") in Haimen District, Nantong City, and occupies a dominant position in affordable housing and infrastructure construction. JHIH is also engaged in diversified commercial activities such as trading business, leasing business and property management services. As of 30 September 2023, the Company was controlled by the State-owned Assets Supervision and Administration Commission of Haimen District Government ("Haimen SASAC"), which directly held 80% of the Company's share and indirectly held 20% of the share through Jiangsu Hairun City Development Group Co., Ltd. ("JHCD"). The Company's paid-in capital was RMB3.0 billion as of the same date.

Exhibit 1. Shareholding Chart as of 30 September 2023



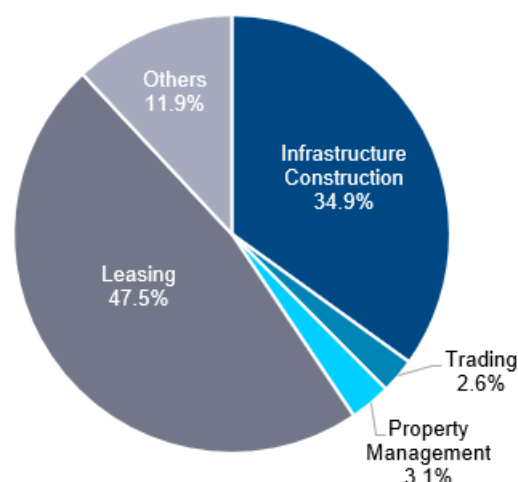
Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross Profit Structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Haimen District Government has a strong capacity to provide support to the Company, given its status as the third largest district by GRP in Nantong City for years with ongoing economic growth.

Nantong City is a prefecture-level city administrated under Jiangsu Province, located in the southern part of Jiangsu Province. It is an economic center and a modern port city on the north bank of the Yangtze River Delta. On the back of its port resources and location advantages, Nantong City has developed six core industrial sectors, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. In 2023, Nantong City recorded a GRP of RMB1.2 trillion, ranking 4th in Jiangsu Province, with a year-on-year ("YoY") increase of 5.8%. With the continuous development of the regional economy, Nantong City reported general budgetary revenue of RMB68.0 billion in 2023, a YoY increase of 11.0% from low level in 2022. Tax revenue is the main contributor to general budgetary

revenue, accounting for around 76% on average over the past three years. However, the recent turndown in the real estate market affects its fiscal stability as government funds revenue accounted for over 50% on average of the fiscal revenue in the past, which mainly came from the sales of land. In 2023, the government funds revenue declined by 13.0% to RMB98.3 billion. The high linkage between its fiscal revenue and the property market would increase fiscal pressure on the government when the real estate market underperforms. As of the end of 2023, the direct debt of Nantong Municipal Government amounted to RMB213.0 billion, increasing by 7.6% YoY and accounting for 18.1% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Nantong City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,102.7	1,138.0	1,180.0
GRP Growth (%)	8.9	2.1	5.8
General Budgetary Revenue (RMB billion)	71.0	61.3	68.0
General Budgetary Expenditure (RMB billion)	112.2	114.7	118.1
Local Government Debt (RMB billion)	186.3	197.9	213.0

Source: Nantong Municipal Government, CCXAP research

Haimen District is a district under the jurisdiction of Nantong City, located in the southeast of Jiangsu Province. The total area of the Haimen District is 1,148.8 square kilometers. Haimen District has developed a few core industries, including construction, home textile, intelligent equipment manufacturing, agriculture, and real estate. In 2023, the GRP of Haimen District increased by 6.0% YoY to RMB169.0 billion, remaining ranked third among all districts and counties in Nantong City. Supported by the sustained development of the regional economy, the Haimen District Government's fiscal resources increased in 2023. It reported the general budgetary revenue of RMB7.5 billion in 2023, increasing by 33.6% from 2022. Taxes represented a large proportion of its revenue, accounting for 73.3% in the past three years. However, Haimen's fiscal balance remained moderate, recorded at an average ratio of 54.1% during the past three years. As of 31 December 2023, Haimen District Government's outstanding debt amounted to RMB15.6 billion, accounting for about 9.2% of GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Haimen District

	2021FY	2022FY	2023FY
GRP (RMB billion)	156.9	163.5	169.0
GRP Growth (%)	9.4	3.1	6.0
General Budgetary Revenue (RMB billion)	7.9	5.6	7.5
General Budgetary Expenditure (RMB billion)	13.4	12.7	12.6
Local Government Debt (RMB billion)	15.3	15.5	15.6

GRP and GRP growth in 2023 were estimated by Haimen District Government.

Source: Haimen District Government, CCXAP research

Government's Willingness to Provide Support

Clear and strong strategic position in Haimen District

The Haimen District government consolidated its state-owned assets in 2017 to form three major LIIFCs, namely, JHCD, Jiangsu Haisheng Holding Group Co., Ltd. ("JHHG"), and JHIH. JHCD is positioned as a comprehensive operations service provider of urban infrastructure and public utilities in the Haimen District. JHHG is mainly responsible for the investment, financing, construction, and management of the transportation infrastructure projects in Haimen District. JHIH is positioned as the core entity responsible for affordable housing construction in Haimen District. JHIH has also undertaken some infrastructure construction projects in Haimen District,

including roads, bridges, and sewage pipeline constructions in Linjiang New Area and Dieshiqiao Textile Area. JHIH has a clear functional positioning among state-owned enterprises in Haimen District that remained unchanged during 2023. We believe that JHIH's strategic role in Haimen District's economic development and public welfare undertakings is irreplaceable in the short-to-medium term.

Dominant position in local affordable housing and infrastructure construction and operations

JHIH has undertaken a number of affordable housing projects over the past years. The Company has signed an Affordable Housing Construction Agreement with the Finance Bureau of Haimen District, and conducts financing, investment and construction according to the regional resettlement needs. The initial funds for the affordable housing projects are borne by JHIH, and the subsequent revenue is mainly from selling resettlement housing to designated households at government pricing. In the case when the sales income cannot cover the costs, the local government makes the compensation for the difference between the sale prices and actual cost plus a markup in return, generally 6-15%. As of 30 June 2023, the Company has completed 19 affordable housing construction projects with a total investment of RMB11.2 billion. The total salable area of these affordable housing was 2.9 million square meters, while the sold area was 1.7 million square meters. The Company also had 15 affordable housing projects under construction or planning as of 30 June 2023, with a total investment of RMB12.6 billion and an outstanding amount of RMB9.3 billion. The current large demand for resettlement housing in Haimen District and the Company's sufficient project reserves greatly support the sustainability of the business.

In addition, JHIH's infrastructure construction projects are mainly undertaken by its subsidiaries, Jiangsu Dongbuzhou Science Park Group Co. Ltd. ("JDBZ") and Nantong Dieshiqiao Construction Engineering Co., Ltd. ("NDCE"). In terms of business scope, JDBZ is responsible for the construction of infrastructure projects in Linjiang New Area, while NDCE is responsible for infrastructure construction in Dieshiqiao Textile Area. JDBZ and NDCE respectively signed an agency agreement with the entrusting party, who shall make an annual payment equivalent to 120% of the actual construction cost either during the construction period or upon completion. As of 30 June 2023, the Company has completed 10 infrastructure construction projects with a total investment of RMB2.5 billion and 9 infrastructure construction projects under construction, with a total investment of RMB5.2 billion and an outstanding investment of RMB1.5 billion. There was no infrastructure construction project under planning.

We believe the Company's large pipelines of affordable housing and infrastructure construction projects will ensure the sustainability of JHIH's future revenue.

Medium risk exposure to commercial activities

Apart from public services, JHIH is engaged in diversified commercial activities including trading business, property leasing and property management. Under business transformation, the Company also plans to develop the fund investment business. While commercial activities generate supplemental income, they may also pose higher operational and business risks than its affordable housing and infrastructure construction businesses. The Company's exposure to commercial businesses is considered medium, which accounted for 25%-30% of its total assets, based on our estimates.

JHIH has high-quality leasable assets which provides additional recurring income. The Company's leasable assets mainly include the textile products wholesale market, medical and biological research development base, Linglong Street and Yuexiangwan Home. Affected by the pandemic from 2020 to 2022, some tenants were exempted from paying rent for three months. The Company's rental income in 2022 rose back to the level in

2021. The gross profit of this segment is outstanding, with a gross profit margin of 89.8% in 2022. Due to the relatively high occupancy rate, we expect the Company to generate relatively stable operating cash flow, and the risk exposure arising from this business segment is considered low.

JHIIH's trading business is mainly the procurement and sales of upstream and downstream materials related to affordable housing and infrastructure construction. Its products include steel, pipe piles, cement, concrete, cables, glycol, and copper rods. The trading business adopts a demand-on-sale model. After the Company confirms the quantity and prices with downstream customers, it organizes procurement from upstream suppliers. The Company earns the rebates between upstream suppliers and downstream distributors. However, the supplier and customer concentration risks remained high. Besides, there is certain mismatch between settlement cycles of upstream suppliers and downstream customers. The Company usually gives downstream customers a credit period of three to six months, while the Company needs to settle the full payment to the upstream suppliers within two to three weeks after receiving the goods. Fortunately, the credit risk arising from the mismatch of the payment periods may be partially offset as the downstream customers are mainly construction entities entrusted by the Company for affordable housing and infrastructure projects.

JHIIH has also developed the fund and real estate equity investment business. The risk exists in the investment sector as the investment period is long and the return on the investment is uncertain. Nevertheless, the risk exposure remains relatively small to the total assets and overall risk is controllable. In addition, as the Company mainly invests in real estate projects in corporation with state-owned enterprises, the actual risk exposure of this segment may be mitigated.

Solid track record of receiving government support

JHIIH has received ongoing support from the Haimen District Government including capital injections, project payments and financial subsidies. For example, in 2022, the Haimen District Government has transferred 7 state-owned assets with a total value of RMB373.0 million to the Company. Meanwhile, JHIIH received operating subsidies of RMB242.2 million from the local government in 2022. As of 30 June 2023, the Company has received a total of RMB2.3 billion in completed infrastructure construction projects, covering around 90.7% of the investment. Given the Company's strategic importance in the Haimen District, we believe that the Haimen District Government will provide JHIIH with ongoing operational and financial support.

High debt leverage and growing debt levels driven by large development pipelines

JHIIH has a high debt leverage owing to its debt-driven business expansion over the past few years. Affected by the continuous investment in affordable housing projects, the Company's total debt has maintained an increasing trend. From 2022 to 30 September 2023, its total debt increased to RMB33.4 billion from RMB31.4 billion and its capitalization ratio, measured by total debt to total capital, increased to 64.1% from 63.1%.

As of 30 June 2023, the Company has 19 projects under construction, with a gross investment of around RMB14.0 billion and an outstanding amount of RMB7.1 billion. Furthermore, the Company had 5 projects under planning with an outstanding investment amount of RMB3.7 billion. We expect that the Company may maintain reliance on external financing for the development of these projects so that its debt leverage will remain at a relatively high level in the next 12 to 18 months.

Exhibit 6. Key Projects under Construction and Planning as of 30 June 2023

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<i>Project under construction</i>				
Infrastructure construction	9	5.2	3.7	1.5
Affordable housing	10	8.8	3.2	5.6
Total	19	14.0	6.9	7.1
<i>Project under planning</i>				
Affordable housing	5	3.7	0	3.7
Total	5	3.7	0	3.7

Source: Company information, CCXAP research

In addition, JHIH's asset liquidity is moderate. As of 30 September 2023, the Company has pledged a number of assets for loans, such as cash, inventory, and commercial properties, with a total amount of RMB11.2 billion, accounting for around 20.2% of its total assets. The Company's inventories and other receivables accounted for 57.3% of the total asset. The Company's inventories mainly include costs of construction projects and affordable housing projects with low liquidity. The Company's other receivables are mainly from local state-owned enterprises, which also put certain pressure on its liquidity. In addition, JHIH's liquidity profile was weak with a low cash to short-term debt ratio of around 0.5x as of 30 September 2023, indicating that its cash balance was insufficient to cover its short-term obligations.

Good access to diversified funding

JHIH's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. The Company's financing channels mainly include bank loans and direct financing, along with a small scale of non-standard financing products. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks, such as China Zheshang Bank Co., Ltd. and Industrial and Commercial Bank of China. As of 30 September 2023, the Company has obtained total bank credit facilities of RMB24.5 billion, with an unutilized amount of RMB4.1 billion. The Company also has a good track record for fund-raising activities in the capital market. For example, in 2023, the Company raised RMB3.5 billion from onshore bonds with coupon rates from 3.1% to 4.2%. The Company also issued a tranche of offshore bond with a coupon rate of 3.9% in June 2023, raising funds of RMB1.5 billion. In addition, the average financing cost in recent years has been relatively low compared with its peers. As of 30 September 2023, the Company has low exposure to non-standard financing of 5.6% of the total debt. The debt pressure in Haimen District is generally controllable, which provides good financing environment for LIIFCs in Haimen District.

High level of external guarantees

JHIH's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the Company had outstanding external guarantees of RMB14.2 billion, accounting for 25.7% of its total assets and 76.3% of its net assets. Most external debt guarantees were provided to local state-owned companies, and we believe the risks from providing guarantees to the local state-owned companies are manageable, given the local government's control over these companies. However, approximately RMB692.8 million of external guarantees were provided to five real estate companies. The guarantees provided to private companies decreased compared to 2022, and all of which are operating normally without major lawsuits or penalties. Among them, three companies are associate companies

of JHIH and are under the control of Jiangsu Longxin Real Estate Co., Ltd. (“Jiangsu Longxin”). They are Longxin Haicheng Real Estate (Changzhou) Co., Ltd. (“Longxin Haicheng”), Longxin Haichuang Real Estate (Gaoyou) Co., Ltd. (“Longxin Haichuang”) and Longxin Haiyue Real Estate (Hai’an) Co., Ltd. (“Longxin Haiyue”). The external guarantees to these three real estate companies will be due by April 2024. Moreover, JHIH has requested counter-guarantees for some of these guarantees such as using land as a pledge.

ESG Considerations

JHIH faces environmental risks because it has undertaken primary affordable 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.

JHIH bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Haimen District. 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.

JHIH's governance considerations are also material as the Company is subject to oversight by the Haimen District 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 7. Peer Comparison

	Jiangsu Hairun City Development Group Co., Ltd.	Jiangsu Haihong Investment Holding Group Co., Ltd.	Jiangsu Haisheng Holding Group Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g	BBB _g
Shareholder	Haimen SASAC (100%)	Haimen SASAC (80%) and JHCD (20%)	Haimen SASAC (80%) and JHCD (20%)
Positioning	Key entity in urban infrastructure and operation of public utilities in Haimen District	Key entity in affordable housing and infrastructure construction in Haimen District	Key entity in transportation infrastructure construction in Haimen District
Total Asset (RMB billion)	58.6	53.3	43.8
Total Equity (RMB billion)	24.7	18.4	16.6
Total Revenue (RMB billion)	2.5	2.5	3.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: Company information, CCXAP research

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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