

Credit Opinion

26 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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Jiangsu Shuangxi Industrial Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g- long-term credit rating of Jiangsu Shuangxi Industrial Co., Ltd. (“JSSX” or the “Company”) reflects the Suining County 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 Suining County’s improving economic and fiscal strengths. However, its fiscal balance is relatively weak.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) importance as the sole entity for infrastructure construction in the Xuzhou Airport Economic Development Zone (“Airport EDZ”) of Suining County; (2) sufficient project reserves supported by the ongoing economic development of Airport EDZ; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; (3) moderate access to funding with certain exposure to non-standard financing products; and (4) medium level of contingent risk.

The stable outlook on JSSX’s rating reflects our expectation that the Suining County Government’s capacity to provide support will remain stable, and the Company will maintain its important role in infrastructure construction in Suining County, especially in Airport EDZ over the next 12-18 months.

Rating Drivers

- Position as the sole infrastructure constructor in Airport EDZ
- Medium exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Moderate access to funding
- Medium level of contingent risk

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 policy importance, improved debt management and improved financing ability.

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 policy significance, material increase in commercial activities or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	25.1	26.5	27.2	29.6
Total Equity (RMB billion)	15.1	15.0	13.0	13.4
Total Revenue (RMB billion)	3.3	3.2	3.1	2.0
Total Debt/Total Capital (%)	26.9	36.8	45.5	49.1

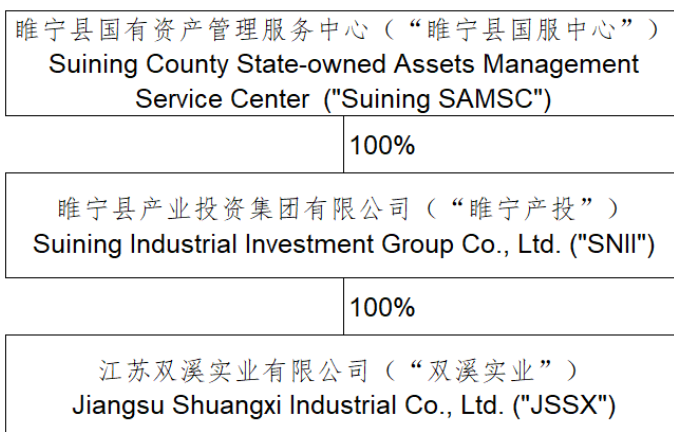
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

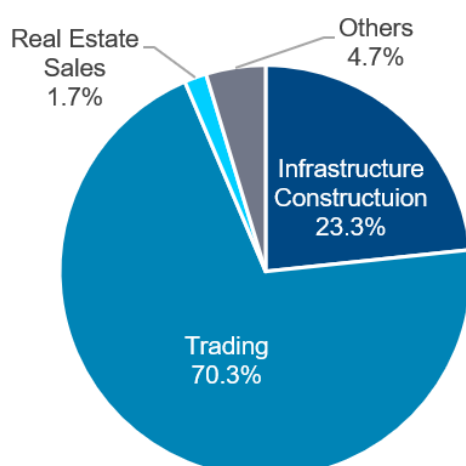
Established in 2014, JSSX is the sole entity for infrastructure construction in Xuzhou Airport EDZ which is located in Suining County. The Company is mainly engaged in investment, financing and management of urban infrastructure, land consolidation and aviation industry investment. Besides, JSSX also conducts in commercial activities such as trading, property development, financial investment and leasing. In 2023, Suining County Extrabudgetary Funds Management Bureau agreed to transfer 100% shares of the Company to Suining Industrial Investment Group Co., Ltd. ("SNII"), a wholly-owned state-owned company of Suining County State-owned Assets Management Service Center ("Suining SAMSC"). As of 5 January 2024, the Company's controlling shareholder was officially changed to SNII but the ultimate controller, Suining County People's Government, remained unchanged.

Exhibit 1. Shareholding Chart as of 5 January 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

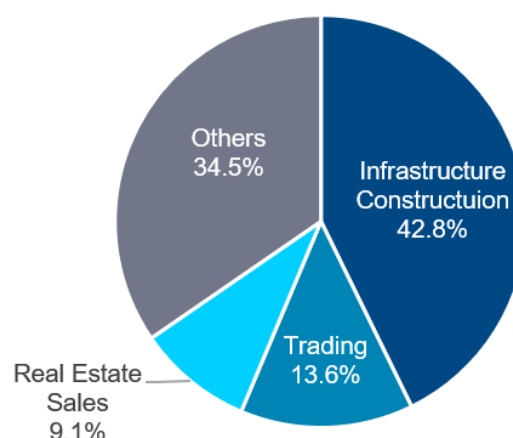
Government's Capacity to Provide Support

We believe that the Suining County Government has a strong capacity to provide support to the Company, given the improving fiscal and economic strengths. However, its fiscal balance is relatively weak.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP also ranks top among all provinces in China.

Xuzhou City is a prefecture-level city administrated under Jiangsu Province and is located in the northern part of Jiangsu Province. It is one of the central cities of Huaihai Economic Zone and is a comprehensive transportation hub, with a total area of 11,765 square kilometers. Xuzhou City has a national economic and technological development zone and a national high-tech industrial development zone, which are Xuzhou Economic and Technological Development Zone and Xuzhou High-tech Industrial Development Zone. During

Exhibit 3. Gross Profit Structure in 2022



the recent years, Xuzhou City has been promoted industrial transformation through upgrading equipment manufacturing industry and vigorously developing emerging industries such as new energy, new materials, and biomedicine. From 2021 to 2023, Xuzhou City's economic strength improved steadily, with the GRP increasing from RMB811.7 billion to RMB890.0 billion, ranking 6th among all prefecture-level cities in Jiangsu Province. In addition, Xuzhou Municipal Government's general budgetary revenue increased to RMB54.6 billion from RMB53.7 billion. Tax revenue is a stable source of its general budgetary revenue, accounting for over 75% over the past three years. However, the fiscal self-sufficiency ratio (general budgetary revenue/ general budgetary expenditure) kept at a moderate level, averaging 51.8% over the past three years. As of end-2023, Xuzhou Municipal Government's direct outstanding debt amounted to RMB163.5 billion, accounting for about 18.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Xuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	811.7	845.8	890.0
GRP Growth (%)	8.7	3.2	7.1
General Budgetary Revenue (RMB billion)	53.7	51.7	54.6
General Budgetary Expenditure (RMB billion)	100.4	103.2	105.7
Local Government Debt (RMB billion)	133.2	152.2	163.5

Source: Xuzhou Municipal Government, CCXAP research

Under the jurisdiction of Xuzhou City, Suining County is located in the northwest Jiangsu Province and the southeast Xuzhou City, with superior transportation conditions. Suining County has two provincial-level economic development zones and five industrial parks, providing a good operating environment for regional industrial development. In order to upgrade industry structure, Suining County focuses on cultivating and promoting two advantageous industrial clusters, namely high-end textiles and e-commerce furnishing, and vigorously develops three characteristic industrial clusters of emerging industries, namely intelligent manufacturing, new energy and new materials, biomedicine and health. From 2021 to 2023, Suining County's GRP increased from RMB67.6 billion to RMB72.7 billion, ranking the middle level among county-level cities in Xuzhou City; and the general budgetary revenue increased to RMB4.4 billion from RMB4.3 billion. The decrease in general budgetary revenue in 2022 is mainly out of the tax rebate policy. Tax revenue is a stable contributor to general budgetary revenue, represented at around 80% in 2023. However, Suining County Government's self-sufficiency remained relatively weak with average fiscal self-sufficiency of around 40% over the past three years, represent high reliance on support from high-tier government and government fund income. As of end-2023, Suining County Government's direct outstanding debt amounted to RMB16.5 billion, accounting for 22.6% of GRP.

Exhibit 5. Key economic and fiscal indicators of Suining County

	2021FY	2022FY	2023FY
GRP (RMB billion)	67.6	68.3	72.7
GRP Growth (%)	8.7	0.4	6.5
General Budgetary Revenue (RMB billion)	4.3	4.2	4.4
General Budgetary Expenditure (RMB billion)	10.4	10.9	11.2
Local Government Debt (RMB billion)	13.7	14.8	16.5

Source: Suining County Government, CCXAP research

Airport EDZ was officially approved as a provincial-level development zone in September 2018 with superimposed transportation resources including highway, high-speed rail, airport, and subway. Airport EDZ has formed three pillar industries, which are aerospace, new energy and new materials, and high-end equipment manufacturing industry. Some leading companies have settled in Airport EDZ, such as Apac Cold International Supply Chain Co., Ltd. and Shenzhen Broad New Energy Technology Co., Ltd. Airport EDZ's comprehensive strength improved yearly and rank rose from 88th at the time of its establishment to 42nd in 2022 among provincial-level development zones in Jiangsu province. In 2023, its industrial output value above the designated size reached RMB3.2 billion, a YoY increase of 63.29%.

Government's Willingness to Provide Support

Position as the sole infrastructure constructor in Airport EDZ

JSSX is the sole entity undertaken the construction and development tasks in Airport EDZ, including infrastructure construction, resettlement housing construction, land development, as well as transportation infrastructure construction projects in Suining County. Considering its strategic role and large project reserves, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

JSSX carries out infrastructure construction projects, mainly including municipal roads and bridges in Suining County as well as infrastructures and resettlement in Airport EDZ. These projects are essential to the urban construction and economic development for Airport EDZ and Suining County. The Company and its subsidiaries sign entrusted construction agreements with related parties and are responsible for the financing, investment and construction of infrastructure construction projects. The entrusting party pays the Company construction costs plus a certain markup after the audit of completed projects. As of 30 June 2023, JSSX had series of infrastructure and resettlement housing projects under construction with a total investment amount of RMB6.3 billion and an outstanding investment amount of RMB1.7 billion. Meanwhile, it had sufficient project reserves under planning with a total investment of RMB2.6 billion, including 3 resettlement housing projects under planning with a total investment of RMB850 million.

JSSX is the sole entity undertaking land consolidation in the Airport EDZ and most of its business is within Airport EDZ. The planned area of Airport EDZ is 30 square meters, including 17 square meters for industrial land and 10.7 square meters for logistic industrial park. The Company has mainly completed the demolition work of Guanlu Village, Liuyuan Village and Wuhang Village, which are unsettled by the local government.

Medium risk exposure to commercial activities

JSSX is engaged in commercial activities including property development, trading, financial investment and leasing. While commercial activities generate supplemental income, they may pose higher business risks than infrastructure construction businesses. Based on our assessment, the Company's risk exposure to commercial activities is medium, whose assets accounted for around 20% of the total assets.

Besides resettlement housing, JSSX also carries out commercial property development in Airport EDZ. As of 30 June 2023, the Company has completed one residential property project, namely Shuimu Qinghua Phase One, and the total investment was RMB250 million. The sale performance of Shuimu Qinghua Phase was slow as the pre-sale started in January 2020 but approximately 84.4% of housing was sold as of 30 June 2023. Meanwhile, the Company also had 2 residential property projects under construction with a total investment amount of RMB1.5 billion and an outstanding investment of around RMB794 million and a residential property project under planning with total investment of RMB450 million under planning. Large outstanding investment in the next three years may weigh on the Company's capital expenditure. With limited experience in residential

property development combined with the downturn of Chinese property market, JSSX may face relatively large uncertainties on sales and destocking progress that weaken its financial performance.

JSSX owns large amount of leasable assets including factories, retail shops and resettlement housing, that expected to generate leasing income. As of 30 September 2023, the book value of investment property amounted to RMB2.5 billion, accounting for around 8.4% of total assets. Due to the increase of the leasable area and the end of the rent exemption periods for part of enterprises, the Company's leasing revenue in 2022 increased compared to 2020, reaching RMB8.9 million. However, its contribution to the total revenue was limited, representing less than 1% of total revenue. As compensation for the rent exemption periods to attract enterprises, Shuanggou Town Government promised to give relevant subsidies to JSSX. For example, in February 2022, the Company received RMB38 million in compensation from the government. The Company had 2 industrial park construction projects under construction with a total investment amount of RMB715 million and an outstanding investment of RMB635 million, and one project under planning with a total investment amount of RMB1.4 billion. As more industrial parks are completed and rent exemption periods expire in the future, the leasable area and rental income are expected to increase. However, considering its ongoing investments in industrial park construction, the Company may face a certain capital expenditure burden.

JSSX engaged in trading business mainly through Xuzhou Niutaike Supply Chain Co., Ltd. ("Niutaike") who offers supply chain financing services for enterprises, especially those settled in Airport EDZ. Niutaike charges 20%-30% deposits from the purchasers, advances the purchase from the designated upstream suppliers and delivers the commodities after the purchasers paying off. The whole settlement cycle is around 15 to 30 days. Niutaike generates income from the resale income of purchased goods, and achieves profit from the capital cost during the advance period. The trade business contributes significantly to the revenue while the margin is thin. In 2022, the revenue of Niutaike achieved income of RMB1.5 billion, accounting for around 48% of total revenue, while the gross profit margin remained at a relatively low level of around 1.0%. The concentration risks from its upstream and downstream clients were high. As of 30 June 2023, the Top 5 customers and Top 5 suppliers accounted for more than 80% and 65% of the total sales and total procurements, respectively. In addition, the Company offers deferred payment sales for some downstream customers, resulting in receivables that expose the Company to payment recovery risk.

JSSX also conducts financial investment including fund and equity investment to attract investment or achieve investment profit. Its portfolio consists of equity transferred from the local government at early stage and self-invested equity and funds. As some equity shares were took back from the local government, the book value of the portfolio decreased to around RMB1.1 billion as of 30 September 2023, accounting for around 3.8% of total assets. The Company mainly invests in engineering, aerospace, new energy and new materials, and high-end equipment manufacturing industries. For equity investment projects, they usually have repurchase clauses and the Company decides to sell back or continue to hold based on the development prospects of underlying projects. For fund investment, the Company mainly acts as a LPs in the partnership enterprises which are managed by professional institutes. Overall, the scale of the Company's financial investment is relatively small and hence the risks are estimated to be controllable. However, since most of the investments are in the preliminary phase and the Company's limited investment experience, there are uncertainties on investment performance.

Good track record of receiving government support

In recognition of the importance of JSSX to Suining County, the Company has received comprehensive support from the government in terms of equity transfer, asset injections, project repayments, and operating subsidies. For example, in 2020, the local government transferred Jiangsu Runlin Development Co., Ltd. and its forest

assets into the Company, substantially enhancing the capital strength of JSSX. Meanwhile, to enhance JSSX's asset operation ability, the local government injected a series of investment property such as standard factories into the Company.

JSSX also has a good track record of receiving government payments. From 2020 to 2023Q3, the Company continuously received operating subsidies from the local government with a total amount of around RMB549.6 million. In addition, it had received project repayments of RMB2.6 billion from infrastructure construction projects during the same period. With the strengthening of investment attraction policy and the continuous inbound investment in Suining County, we expect the Company to receive ongoing government support to sustain the further construction of government-mandated public projects and investments.

Increasing debt burden and moderate asset liquidity

Due to large investments in construction projects, JSSX has experienced a continuous increase in both debt scale and debt leverage over the past three years. From 2020 to 2023Q3, the Company's total debt has increased to RMB13.0 billion from RMB5.5 billion, with a compound annual growth rate of 25.2%. Its total capitalization ratio, measured by total debt to total capital, also increased to 49.1% from 26.9% during the same period, which resulted from increased debt level and reduced capital base. In addition, the short-term debt burden also increased with the portion rising to 35.5% from 20.2% of the total debt. The cash-to-short-term debt ratio was 0.4x as of 30 September 2023, indicating that cash unable to cover the short-term debt. Considering future investment in infrastructures and commercial activities, the Company is expected to rely on external financing so that the debt leverage may maintain or increase in the next 12-18 months.

Besides, JSSX's asset liquidity was moderate as large portion of inventories with less liquid. As of 30 September 2023, JSSX's inventories accounted for 57.5% of total assets, mainly including development cost of infrastructure and resettlement housing, as well as the forest assets allocated by the local government. The liquidity of all these assets is considered moderate and difficult to realize in the short term. Meanwhile, the Company's accounts receivable and other receivables accounted for around 9.0% of the total assets. The account receivables mainly resulted from the repurchase of agent construction projects and sales of commodity trading business. Its other receivables were payments with local government departments, state-owned enterprises and private enterprises. As of 30 September 2023, the Company's accounts receivable from private-owned engineering constructors amounted to around RMB423.8 million with no clear repayment schedule, resulting in certain recovery risks.

Moderate access to funding

JSSX has access to different funding channels including bank loans, domestic capital market and non-standard financing products, which could partially release its capital expenditure pressure. Bank loans is the main funding sources, which accounted for around 60% of total debt. JSSX maintains good relationships with large domestic banks such as the Agricultural Development Bank of China and Industrial Bank Co., Ltd. As of 30 September 2023, the Company has obtained total bank credit facilities of RMB9.1 billion, with an unutilized amount of RMB3.0 billion. Meanwhile, JSSX actively expanded its funding channels and had a presence in the domestic capital market in the past three years. For example, in 2023, the Company issued seven tranches of public enterprise and private corporate bonds, raising around RMB1.2 billion. However, JSSX's exposure to non-standard financing products was moderate, accounting for 18% of total debt as of 30 September 2023. The main non-standard financing products were trusts and financial leasing. The non-standard financing product generally has high financing cost, which would bring higher refinancing pressure to the Company.

Medium level of contingent risk

The credit profile of JSSX is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the Company had a relatively large amount of outstanding external guarantees of RMB3.8 billion, accounting for 28.1% of its net assets. Most of the guarantees are provided to other state-owned enterprises within Suining County such as Suining Xincheng Investment Development Co., Ltd. and Jiangsu Runqi Wanguo Industrial Co., Ltd. If a credit event occurs in the region, the Company may face certain contingent liability risks. However, we believe that the credit risk of the guarantee is moderately controllable, taking the local government's support to some of these local state-owned enterprises in times of need into account.

ESG Considerations

JSSX faces environmental risks because it has undertaken public policy 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.

JSSX bears social risks as it implements public policy initiatives by building public infrastructure in Suining 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.

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

Structural Considerations

JSSX's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in infrastructure construction and industrial development in Suining County, especially in Airport EDZ, 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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