

Credit Opinion

12 April 2024

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

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Huantai Jinhai Public Assets Management Co., Ltd

Surveillance credit rating report

CCXAP affirms the long-term credit rating of Huantai Jinhai Public Assets Management Co., Ltd. at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Huantai-Jinhai Public Assets Management Co., Ltd. (“HTJH” or the “Company”) reflects Huantai 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 Huantai County Government’s capacity to support reflects its increasing comprehensive economic strength, but constrained by its modest fiscal.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) key role in infrastructure construction and public services; and (2) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) fair access to funding; and (3) moderate contingent risks of external guarantees that provided to local state-owned enterprises.

The stable outlook on HTJH’s rating reflects our expectation that the Huantai County Government’s capacity to provide support will remain stable, and the Company will maintain its key role in local infrastructure construction and public services over the next 12 to 18 months.

Rating Drivers

- Key role in infrastructure construction and public services
- Good track record of receiving government support
- Medium exposure to commercial activities
- Ongoing debt growth driven by continuous investment in construction projects
- Moderate contingent risks of external guarantees that provided to the local state-owned enterprises
- Fair access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Huantai County 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 improved debt management or enhanced financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Huantai County 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 materially increased exposure to commercial activities.

Key Indicators

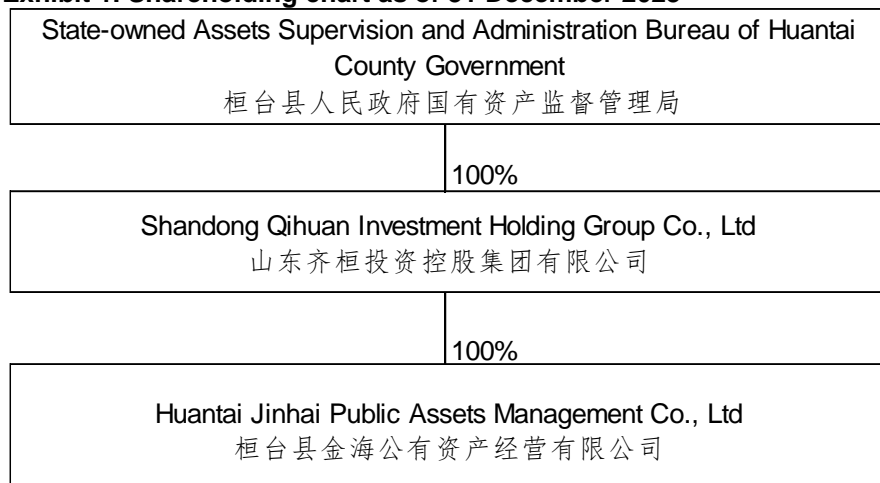
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	12.3	14.8	16.6	19.2
Total Equity (RMB billion)	8.0	8.3	9.0	9.0
Total Revenue (RMB billion)	0.9	1.3	1.2	0.5
Total Debt/Total Capital (%)	27.7	35.7	38.3	44.7

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

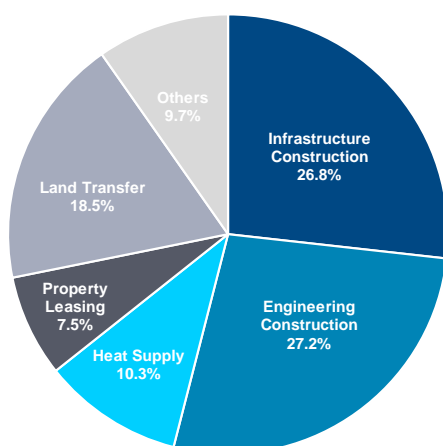
Source: Company data, CCXAP research

Corporate Profile

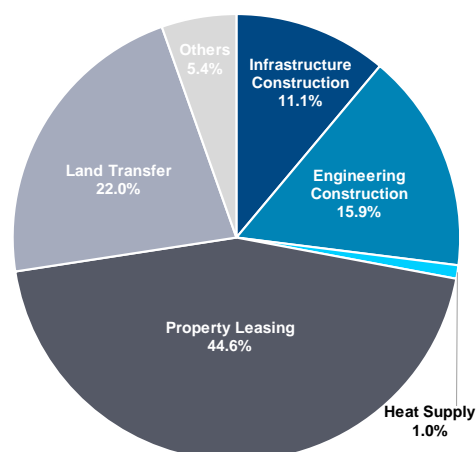
Founded in August 2003, HTJH is one of the major local infrastructure investment and financing companies ("LIIFCs") in Huantai County. The Company mainly takes part in public activities, including infrastructure construction, resettlement housing construction, land transfer, as well as heat supply. HTJH also engages in some commercial activities such as engineering construction, property leasing, commodity trade, and industrial park construction and operation. On 18 December 2023, the State-owned Assets Supervision and Administration Bureau of Huantai County transferred 100% shares of the Company to Shandong Qihuan Investment Holding Group Co., Ltd. ("QHIIH"). As of 31 December 2023, QHIIH directly and wholly owned 100% shares of the Company, and Huantai County Government was still the ultimate controller.

Exhibit 1. Shareholding chart as of 31 December 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**

Huantai County is administrated under Zibo City, a prefecture-level city in Shandong Province. We believe the local government of Huantai County has a relatively strong capacity to provide support given its increasing comprehensive economic strength, but constrained by its modest fiscal.

In 2023, Shandong is the third largest province in China by gross regional products ("GRP"), with solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Zibo City is located in the central part of Shandong Province, which is one of the core cities of Shandong Peninsula urban agglomeration and a regional central city in Shandong Province approved by the State Council. Thanks to its abundant tourism resources and industrial and mining assets, Zibo City recorded GRP of RMB420.1 billion, RMB440.3 billion, and RMB456.2 billion in 2021, 2022, and 2023, respectively, ranking 7th by GRP among 16 prefecture-level cities in Shandong Province. The growth rate of GRP increased to 5.5% in 2023 from 4.7% in 2022. Zibo City has strong fiscal strength. In 2023, its general budgetary revenue covered around 71.6% of its general budgetary expenditure, and tax incomes accounted for 64.4% of its general

budgetary revenue. As of 31 December 2023, Zibo City's outstanding government debt balance amounted to RMB122.6 billion, accounting for 26.9% of GRP.

Exhibit 4. Key economic and fiscal indicators of Zibo City

	2021FY	2022FY	2023FY
GRP (RMB billion)	420.1	440.3	456.2
GRP Growth (%)	9.4	4.7	5.5
General Budgetary Revenue (RMB billion)	36.9	37.4	39.5
General Budgetary Expenditure (RMB billion)	52.3	51.4	55.2
Local Government Debt (RMB billion)	94.6	108.0	122.6

Source: Zibo Municipal Government, CCXAP research

Huantai County is located in the north-central of Shandong Province, which is well known as “the First County of Tons of Grain” and “the Hometown of Architecture”. It was also assigned as “the Membrane Valley of China” by China Petroleum and Chemical Industry Federation in 2019. Since the 1990s, petroleum refining, high-end papermaking, and green high-end new materials have become the pillar industries of Huantai County. Huantai County's GRP increased by 5.5% year-over-year (“YoY”) to RMB72.3 billion in 2023, ranking 2nd among 9 counties/districts in Zibo City. It had relatively high fiscal balance and the average fiscal balance ratio (general budgetary revenue to general budgetary expenditure) was 80.6% over the past three years. As of 31 December 2023, the outstanding government debt of Huantai County was RMB10.5 billion, accounting for 14.5% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Huantai County

	2021FY	2022FY	2023FY
GRP (RMB billion)	67.4	70.2	72.3
GRP Growth (%)	10.8	3.1	5.5
General Budgetary Revenue (RMB billion)	3.8	4.0	4.1
General Budgetary Expenditure (RMB billion)	5.2	4.9	4.7
Local Government Debt (RMB billion)	8.8	9.4	10.5

Source: Huantai County Government, CCXAP research

Government's Willingness to Provide Support

Key role in infrastructure construction and public services

HTJH is one of the major LIIFCs in Huantai County, with high importance in local development. The Company is authorized to carry out key infrastructure construction projects and provide essential public service to residents.

Most of the HTJH's infrastructure construction projects adopt agency construction model or build-transfer model. Under the agency construction model, the Company signs an entrusted construction agreement with the government and receives the construction cost plus certain markup after the project is completed. Under the build-transfer model, the Company signs a build-transfer cooperation agreement with the local government and engages in the construction and operation of the project. It is expected to receive government payments after the project is transferred. As of 30 September 2023, HTJH has completed several infrastructure projects, including road greening, integration of urban and rural water supply, and ecological garden project, which greatly improved the living environment of local residents and ecosystem. Meanwhile, the Company had 4 infrastructure

projects under construction, with a total investment amount of RMB6.4 billion and uninvested amount of RMB 901 million.

Moreover, the Company conducts the resettlement housing construction through self-operation model. According to the government's shantytown renovation plan, resettlement houses will be sold to the resettled households at guidance prices. The income of this sector may rely on property sales to the resettled households or even to the public homebuyers, which may exert higher uncertainties in fund balancing of these projects as the direct payments from local government will be less as compared to agency construction model and build-transfer model. As of 30 September 2023, the Company had 3 resettlement housing projects under construction, with a total investment amount of RMB2.7 billion and uninvested amount of RMB472 million.

Additionally, HTJH is authorized by the local government to engage in the land transfer business and obtains land use rights through government transfer or the auction market, such policy-driven activity aims to promote sustainable development of local land market. As of 30 September 2023, the Company had 12 major high-quality land plots with total area of nearly 4 million square meters. In 2022, the Company recognized land transfer revenue of RMB295.2 million.

Furthermore, HTJH's subsidiary is the sole heat supplier in Huantai County covering residential and non-residential customers in main urban district and southern urban district of Huantai County. As of 30 September 2023, the Company owned a total of 72 heat exchange stations and 320 kilometers of heating supply pipelines with direct heat supply area of 7.4 million square meters. However, the profitability of this business is low due to its strong public welfare nature and the government provides continuous subsidies to the Company.

HTJH's infrastructure construction, resettlement housing construction, and heat supply businesses are relatively sustainable given its sufficient project reserves and its dominant position. We expect that the Company's key role in policy public activities will maintain its leading position among the LIIFCs in Huantai County in the foreseeable future.

Good track record of receiving government support

The local government provides strong support to the Company through various forms such as project payments, cash injections, asset injections, equity transfers, and operating subsidies, which continue to enhance the capital strength and increase operational assets. In 2020, the Huantai County Real Estate Administration Bureau transferred 80% of its equity in Huantai Economic Development Zone Juxin Investment Co., Ltd. to the Company, increasing the Company's capital reserve by RMB81 million. In 2021, HTJH's capital reserves further increased by RMB510 million, derived from the operational asset injections from the local government such as Huantai County Mata Lake Ecological Restoration Water Storage, Constructed Wetland, and Mata Lake Wetland Museum.

Moreover, the Company received ongoing project payments from its infrastructure construction business according to the agreement signed with the local government. As of 30 September 2023, HTJH had completed the construction of 8 major public facilities, with total investment of RMB2.2 billion and repayments of RMB2.3 billion. From 2021 to 2023Q3, the local government provided over RMB461.5 million in operating subsidies for public-policy activities, such as infrastructure construction and heat supply. We expect that the Company will maintain its dominant position in infrastructure construction and providing public services in Huantai County, and the local government will continue to support its development when necessary.

Medium exposure to commercial activities

HTJH's major commercial businesses include engineering construction, industrial park construction and operation, property leasing and commodity trade. We believe these market-oriented activities may have higher uncertainty in future income. We estimated that the Company's exposure to commercial activities is medium, with the commercial assets accounted for less than 30% of HTJH's total assets as of 30 September 2023.

HTJH has started market-oriented engineering construction through its subsidiary with relevant qualifications. The Company acquires projects, primarily concentrated in Zibo City, including residential buildings and industrial plants, through open market bidding. HTJH has certain advantages in acquiring local projects by its important role in local development and matured construction qualifications. However, majority of the engineering construction contracts are related to real estate development, subsequent project construction and income may experience higher volatility, particularly during the downturn of China's property market. The revenue of engineering construction dropped 8.9% YoY to RMB435.8 million in 2022.

In addition, HTJH owns more than 40 investment properties and undergoes property leasing to generate an additional source of income. The Company signed leasing contracts with Huantai Finance Bureau and leases investment properties to number of government agencies and public institutions, with high occupancy rates. From 2021 to 2023Q3, the Company reported total rental income of more than RMB333.1 million. HTJH also engages in the construction and operation of industrial parks, with important strategic role in attracting external investment and promoting the development of pillar industries in Huantai County. As of 30 September 2023, the Company had 2 industrial park projects under construction including Huantai Membrane Industry Demonstration Park and Huantai Inorganic Composite High-tech Material Industrial Park, with a total investment of RMB1.0 billion and uninvested amount of RMB118 million. The income from such industrial parks will be generated from selling and leasing factories and office buildings.

The Company also engaged in commodity trade business. In the first three quarters of 2023, the Company recognised trading revenue of RMB301.1 million, a further increase from RMB37.3 million in 2022, accounting for 35.3% of the total revenue. However, the top 5 supplies and customers of commodity trade business accounted for 100% of the total procurement and total sales in the first three quarter of 2023, respectively, demonstrating relatively high concentration risks. Moreover, the gross margin of commodity trade business was low, only about 2%.

Ongoing debt growth driven by continuous investment in construction projects

HTJH's total debt continued to increase in the past three years as ongoing investment needs and quite long payback period for its infrastructure construction and self-operated construction business. The Company's total debt increased from RMB4.6 billion at end-2020 to RMB8.8 billion as of 30 September 2023; while the total capitalization ratio rose from 35.7% to 47.1 % over the same period. Although the growth rate of total debt is higher than economic growth, the ongoing increase in the total debt is mainly driven by the investment in policy support projects through long-term loans, which are beneficial to local development. The Company maintained a reasonable debt structure, and the short-term debt of the Company accounting for 22.4% of total debt as of 30 September 2023.

However, HTJH still faces certain capital expenditure pressure for the relatively large uninvested amount of public construction projects and commercial construction projects. As of 30 September 2023, the Company was expected to invest more than RMB1.5 billion in the construction of infrastructure facilities, resettlement houses, as well as industrial parks. We expect the Company will need additional funding from external sources to repay its maturing debts and support ongoing investment in projects.

Fair access to funding

HTJH has demonstrated fair access to different sources of funding including bank loans, bond financing and non-standard financing. The Company maintains long-term and close relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks, such as Agricultural Development Bank of China, Bank of China Limited, and Bank of Qingdao Co., Ltd. As of 30 September 2023, the Company received total credit facilities of RMB6.1 billion and the available portion amounted to RMB1.1 billion. In 2023, the Company issued 3 domestic bonds totaling RMB2.2 billion, with coupon rates from 5.8% to 6.8%. The Company also issued a tranche of offshore bonds in 2023, with total raising amount of RMB334 million. In addition, HTJH's exposure to non-standard financing, mainly financial leasing, is manageable, representing approximately 10.6% of its total debt as at 30 September 2023.

Considering the Company's important status as the key platform to undertake public projects and provide utility services in Huantai County, we expect HTJH to maintain access to domestic bank loans and debt capital markets. We also expect the Company will gradually replace its exposure of non-standard financing with more issuance from the bond market and bank facilities from bank, the progress of which we will closely monitor.

Moderate contingent risks of external guarantees that provided to the local state-owned enterprises

HTJH is exposed to moderate contingent liabilities given the relatively large amounts of external guarantees provided to other local state-owned enterprises. As of 30 September 2023, the Company's external guarantees amounted to RMB3.5 billion, accounting for 35.1% of its net assets, of which the majority were provided to local state-owned enterprises. The practice of mutual guarantees among local SOEs is common in Huantai County. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

ESG Considerations

HTJH assumes environmental risks through its construction of infrastructure, resettlement housing, and industrial park projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

HTJH bears social risks as it plays a strong role in the development of Huantai 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.

HTJH's governance considerations are also material as the Company is subject to oversight by Huantai County Government and must 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 \(July 2022\)](#).

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