

Credit Opinion

6 May 2024

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

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Shandong Jibei New City Urban Operation Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Shandong Jibei New City Urban Operation Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Shandong Jibei New City Urban Operation Co., Ltd. (“JBNC” or the “Company”) reflects Jiyang District Government’s (1) 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 Jiyang District Government’s capacity to provide support reflects its ongoing integration into the economic development of Jinan City, and its relatively good fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in urban construction projects in Jiyang District; and (2) solid track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium and increasing exposure to commercial activities; and (2) moderate access to funding.

The stable outlook on JBNC’s rating reflects our expectation that Jiyang District Government’s capacity to provide support will be stable, and the Company’s characteristics such as its dominant role in the development of Jiyang District will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Dominant role in urban construction projects in Jiyang District
- Medium and increasing exposure to commercial activities
- Solid track record of receiving government payments
- Increasing debt burden driven by large investment needs
- Moderate access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jiyang District 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 lower exposure to risk commercial activities or improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Jiyang District 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 or decreased government payments.

Key Indicators

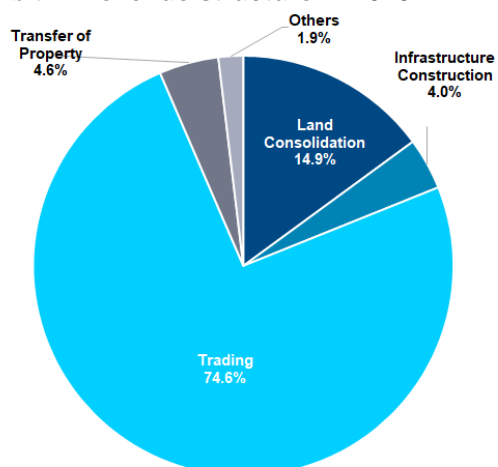
	2022FY	2023FY
Total Asset (RMB billion)	25.9	31.7
Total Equity (RMB billion)	9.5	14.2
Total Revenue (RMB billion)	5.8	5.7
Total Debt/Total Capital (%)	56.6	49.3

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2020, JBNC is the largest investment and financing platform in terms of total assets in Jiyang District after consolidation of Jiyang State-owned Assets Investment Holding Group Co., Ltd. ("JSAI") in April 2024. The Company is mainly responsible for urban construction in Jiyang District, including infrastructure construction, primary land consolidation, and resettlement housing development. JBNC also diversified into other commercial business, including property development, self-operated project construction and operation, leasing, and trading businesses. As of 12 April 2024, the Company was wholly and directly owned by the Finance Bureau of Jiyang District.

Exhibit 1. Revenue structure in 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government of Jiyang District has a strong capacity to provide support given its ongoing integration into the economic development of Jinan City, and its relatively good fiscal stability.

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. Jinan City is a sub-provincial city, the capital of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1 trillion over the past three years. Over the same period, Jinan City has been ranking 9th by GRP among 15 sub-provincial cities in China and ranking 2nd among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2021 to 2023, its general budgetary revenue increased from RMB100.8 billion to RMB106.1 billion, with an average self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of 78.3%. As of 31 December 2023, the local government's outstanding debt amounted to RMB318.0 billion, accounting for 24.9% of GRP.

Exhibit 2. Key economic and fiscal indicators of Jinan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,143.2	1,202.8	1,275.7
GRP Growth (%)	7.2	3.1	6.1
General Budgetary Revenue (RMB billion)	100.8	100.0	106.1
General Budgetary Expenditure (RMB billion)	129.3	126.0	136.5
Local Government Debt (RMB billion)	212.0	266.0	318.0

Source: Jinan Municipal Government, CCXAP research

As a suburb of Jinan City, Jiyang District is located in the southern part of the Northwest Plain of Shandong Province. On 19 June 2018, the State Council approved the establishment of Jiyang District from Jiyang County and kept the same administrative area, with a total planned area of approximately 1,076 square kilometers. Since 2021, Jiyang District has actively integrated into the Jinan Start-up Area for Growth Drivers

Transformation, which will further enhance its urbanization and infrastructure development. Under the guidance of northward development strategy of Jinan City, Jiyang District will highlight the advanced manufacturing and producer service industries to build a main urban area in the north of Jinan City with high-quality development.

In recent years, the economic strength of Jiyang District has continued to increase. The GRP of Jiyang District increased by 7.2% YoY to RMB26.8 billion in 2023. Benefited from the recovery in tax revenues, its general budgetary revenue also increased to RMB3.0 billion in 2023. Jiyang District Government has relatively good fiscal stability. Its average fiscal stability ratio (tax revenue/general budgetary revenue) was 72.3% over the past three years. However, Jiyang District Government had a relatively weak fiscal balance as its general budgetary revenue covered around 63.0% of general budgetary expenditure over the past three years. As of 31 December 2023, Jiyang District Government's outstanding governmental debt amounted to RMB8.2 billion, accounting for 30.4% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of the Jiyang District

	2021FY	2022FY	2023FY
GRP (RMB billion)	22.4	23.7	26.8
GRP Growth (%)	2.6	3.2	7.2
General Budgetary Revenue (RMB billion)	2.7	2.4	3.0
General Budgetary Expenditure (RMB billion)	4.8	3.6	4.4
Local Government Debt (RMB billion)	6.4	7.0	8.2

Source: Jiyang District Government, CCXAP research

Government's Willingness to Provide Support

Dominant role in urban construction projects in Jiyang District

JBNC is the largest state-owned investment and financing entity in Jiyang District to implement government blueprint of local urbanization and infrastructure development after the consolidation of JSAI in 2024. The Company has participated in different policy-related projects, such as municipal infrastructure construction, land consolidation, resettlement housing construction projects, and provision of heat supply in Jiyang District. Considering the Company's dominant role in the public policy projects in Jiyang District, we believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Commissioned by the Finance Bureau of Jiyang District, JBNC undertakes infrastructure construction and primary land consolidation projects in Jiyang District under the agency construction model. As of 31 December 2023, the Company had completed 4 major infrastructure construction projects in Jiyang District, including resettlement housing and road construction, with a total invested amount of more than RMB1.0 billion. Meanwhile, the Company had 5 infrastructure construction projects under construction, with a planned investment of RMB6.3 billion and an uninvested amount of RMB592 million.

The Company is also authorised by the local government to conduct primary land consolidation projects in Jiyang District and carries out demolition, resettlement, and consolidation work in the designated land area. As of 31 December 2023, JBNC had large scale of primary land consolidation projects under construction, with total invested amount of RMB7.9 billion. These projects were at the final stages and most of the construction work had been completed. However, the government payment of land consolidation projects was relatively slow. As of 31 December 2023, the Company had received government payment of RMB2.5 billion for the land consolidation projects. The slow government payment would increase the financial burden of the Company. As

of 31 December 2023, the Company had 1 proposed primary land consolidation project with a total planned investment of RMB1.8 billion.

Medium and increasing exposure to commercial activities

Apart from public-related activities, JBNC also engages in several commercial activities, mainly including construction of self-operated project, property development and trading. We consider JBNC's commercial business exposure to be medium, accounting for around 15-20% of its total assets. However, the relatively large future investment in self-operated projects may increase the Company's capital expenditure pressure. Besides, with the ongoing investment in property development, we expect its exposure to commercial activities would increase especially during the downturn of the real estate market.

The Company conducts self-built and self-operated projects through self-raised funds, which put great pressure on its capital expenditures. As of 31 December 2023, the Company had 8 self-built and self-operated projects under construction, with a total estimated investment of RMB5.9 billion and an uninvested amount of approximately RMB2.9 billion. These projects included commercial and residential property development, and bio-pharmaceutical bases construction, which will be leased or sold upon completion to cover the construction cost. Meanwhile, there were 3 projects under planning, with a total investment of RMB1.8 billion. The Company is expected to rely on significant external capital expenditure to build and operate self-constructed projects in the future. Moreover, during the downturn of the real estate market, increasing investment in property development may bring more operating uncertainty and financial risks to the Company.

Trading business is the main income source of JBNC. In 2023, the Company recognized trading revenue of RMB4.2 billion, accounting for around 74.6% of the total revenue. The Company has gradually diversified its product mix, which mainly includes steel, grain, oil, coal, building materials, household appliances and power distribution control equipment. The Company's concentration risk of upstream suppliers and downstream customers is moderate. The top five suppliers and top five customers accounted for 31.1% and 29.3% of the total procurement and total sales in 2023, respectively. Moreover, the Company has relatively strict internal control over the selection of suppliers and customers, such as due diligence investigation and risk analysis on potential suppliers and customer.

Solid track record of receiving government payments

JBNC has a proven track record of receiving support from the local government in terms of equity transfer, asset injection, construction project payments and subsidies. In 2024, the local government transferred equities of some state-owned enterprises to the Company, which enhanced its capital strength and broadened its business mix. After consolidation of JSAI, JBNC became the largest investment and financing platform by total assets in Jiyang District. As of 31 December 2023, the Company's capital reserve also increased to around RMB10.7 billion from RMB6.1 billion as of end-2022, including cash injection and asset transfer such as heating pipelines from the local government. The heating pipelines are expected to generate leasing revenue in the future.

Furthermore, the Company has signed agreements for its public policy projects with the local government, which ensures the predictability of the project payments. As of 31 December 2023, the Company had received project payments for infrastructure construction and land consolidation of around RMB4.2 billion. JBNC also received continuous operating subsidies from the local government from 2022 to 2023, with total amount of around RMB820.5 million. We believe that, given the dominant position of JBNC in public-policy projects in Jiyang District and its close relationship with the local government, the local government will continue to provide strong support to the Company.

Increasing debt burden driven by large investment needs

Due to the ongoing investments for its infrastructure construction and primary land consolidation projects, JBNC's total debt has continued to increase. As of 31 December 2023, the Company's total debt increased to RMB13.8 billion from RMB12.4 billion as of end-2022, while the total capitalization ratio decreased to 49.4% from 56.7% due to the increase in total equity after capital injection. As of 31 December 2023, the Company's short-term debt accounted for 66.5% of the total debt, and cash to short-term debt ratio was around 0.4x, indicating high short-term debt pressure. However, majority of the short-term debt was bank loans and can be rolled over after debt maturity, partially reducing short-term repayment pressure of the Company. The Company is expected to improve the debt structure by replacing short-term loans with medium and long-term project loans. Considering the Company may continue to rely on external financing for its investment needs for public policy projects and commercial activities projects under construction, its total debt burden is expected to further increase over the next 12-18 months.

Moderate access to funding

JBNC shows moderate access to funding channels, such as bank loans, bond issuance, and non-standard financing. Bank loans accounted for the majority of the Company's total debt. The Company has long-term relationships with various major domestic banks, including major policy banks and joint-stock commercial banks. Due to the important role JBNC has played in local development, the Company has also received project loans from policy banks, such as China Development Bank and Agricultural Development Bank of China. The credit facilities granted by these policy banks accounted for around 31% of the Company's total credit facilities. As of 31 December 2023, the Company had total credit facilities of RMB8.6 billion, with the available portion being RMB1.4 billion. The Company also has access to debt capital market. In March 2024, the Company's subsidiary JSAI issued one tranche of domestic bond, raising RMB500 million. The Company also tapped into offshore bond market through its subsidiaries, raising EUR88 million in 2022. The Company has a moderate exposure to non-standard financing, accounting for 20%-25% of total debt as of end-2023, mainly from financial leasing companies.

ESG Considerations

JBNC assumes environmental risks through its infrastructure construction and primary land development 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 concerns, JBNC plays a crucial role in the social well-being of the residents in Jiyang District by undertaking urban infrastructure construction projects.

JBNC's governance considerations are also material as the Company is subject to oversight by Jiyang 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 \(July 2022\)](#).

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