

## Credit Opinion

24 May 2024

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Jiangsu Runcheng Urban Investment Holding Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Jiangsu Runcheng Urban Investment Holding Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Jiangsu Runcheng Urban Investment Holding Group Co., Ltd. (“JSRC” or the “Company”) reflects (1) the Pizhou City Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the Pizhou City Government’s capacity to provide support reflects Pizhou City’s status as one of the Top 100 counties in China, with ongoing economic growth over the years. 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) dominant role in state-owned assets management and infrastructure construction in Pizhou City; (2) good track record of receiving government support; and (3) good access to funding channels.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, especially in property development and financial investment; (2) increasing debt burden and moderate asset liquidity; and (3) medium contingent risk resulting from external guarantees.

The stable outlook on JSRC’s rating reflects our expectation that the Company’s position in Pizhou City will remain stable, and the Company will maintain its important position in the infrastructure construction and urban development of Pizhou City over the next 12-18 months.

## Rating Drivers

- Dominant role in infrastructure construction in Pizhou City
- Medium risk exposure to commercial activities, especially in property development and financial investment
- Good track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Good access to funding channels
- Medium contingent risk resulting from external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Pizhou City Government's ability 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 decrease in exposure to commercial activities and reduction in exposure to external guarantees.

### What could downgrade the rating?

The rating could be downgraded if (1) Pizhou City 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 refinancing ability.

## Key Indicators

	2021FY	2022FY	2023FY
Total Assets (RMB billion)	77.1	82.8	84.3
Total Equity (RMB billion)	33.4	35.1	35.7
Total Revenue (RMB billion)	3.5	3.7	3.9
Total Debt/Total Capital (%)	53.3	53.4	52.8

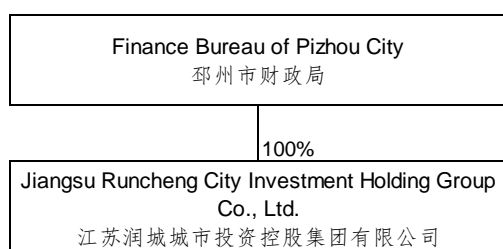
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

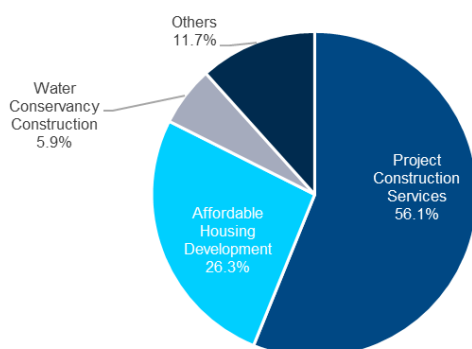
Established in 2013, JSRC is an important infrastructure investment, construction, and operation entity in Pizhou City, Xuzhou City, with the largest assets scale. It is mainly responsible for infrastructure construction, resettlement housing and water conservancy construction. The Company is also engaged in commercial activities such as real estate development, property leasing, property management and steel sales. As of 31 December 2023, the Company was wholly owned and ultimately controlled by the Finance Bureau of Pizhou City.

### Exhibit 1. Shareholding chart as of 31 December 2023



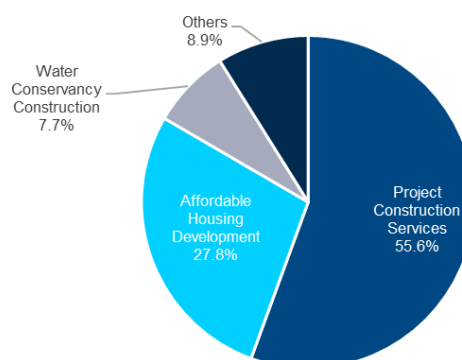
Source: Company information, CCXAP research

### Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

### Exhibit 3. Gross profit structure in 2023



## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Pizhou City Government has a strong capacity to provide support to the Company, given its status as one of the CCID Top 100 Counties in China, and its ongoing economic growth over the past few years. However, its fiscal balance is relatively weak.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by gross regional product ("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 for the same period was RMB150,487, ranking first among all provinces in China.

Xuzhou City is a prefecture-level city administrated under Jiangsu Province and is in the northern part of Jiangsu Province. It is a comprehensive transportation hub, with a total area of 11,765 square kilometers. From 2021 to 2023, Xuzhou City's economic strength improved steadily with GRP increasing to RMB890.0 billion from RMB811.7 billion, ranking 6<sup>th</sup> among all prefecture-level cities in Jiangsu Province. The general budgetary revenue reached RMB54.6 billion in 2023. Tax revenue is a stable source of general budgetary revenue, accounting for on average over 75% over the past three years. However, the fiscal balance ratio has remained at a moderate level over the past three years and was recorded at 51.7% in 2023. As of end-2023, Xuzhou Municipal Government's direct outstanding debt amounted to RMB163.5 billion, accounting for 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: Statistic Bureau of Xuzhou City, CCXAP research

Pizhou City is a county-level city under the jurisdiction of Xuzhou City. It ranked 43<sup>th</sup> among the Top 100 counties in China, released by the CCID Consulting County Economic Research Center in 2023. Pizhou City continues to upgrade its industrial structure and has developed six core industries including high-end equipment manufacturing, carbon-based new materials, semiconductor materials and equipment, energy conservation and environmental protection, green food, and ecological home furnishings. Pizhou City's economic strength continuously improved over the past three years. Its GRP increased steadily to RMB127.7 billion in 2023, with a YoY increase of 10.0%, ranking 2<sup>nd</sup> among all county-level cities in Xuzhou City. Pizhou City Government's fiscal strength also improved along with the economic growth. In 2023, the general budgetary revenue increased to RMB4.6 billion, of which tax revenue, a relatively stable income source, represented 83.0%. However, the Pizhou City Government's self-sufficiency remained relatively weak with an average fiscal self-sufficiency ratio of 35.9% over the past three years. As of end-2023, Pizhou City Government's outstanding debt amounted to RMB18.4 billion, accounting for about 14.4% of GRP.

**Exhibit 5. Key economic and fiscal indicators of Pizhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	110.8	115.7	127.7
GRP Growth (%)	9.5	4.2	10.0
General Budgetary Revenue (RMB billion)	4.7	4.3	4.6
General Budgetary Expenditure (RMB billion)	12.7	12.5	12.9
Local Government Debt (RMB billion)	15.0	17.1	18.4

Source: Statistic Bureau of Pizhou City, CCXAP research

**Government's Willingness to Provide Support****Dominant role in infrastructure construction in Pizhou City**

There are two main state-owned enterprises under the control of the Pizhou City Government, JSRC and Pizhou Industrial Investment Holding Group Co., Ltd ("PZII"). JSRC is mainly responsible for urban infrastructure construction, land consolidation, area development and urban renovation in Pizhou City, while PZII is primarily engaged in infrastructure construction and industrial investment in Economic Development Zone of Pizhou City ("Pizhou EDZ") and High-tech Industrial Development Zone of Pizhou City ("Pizhou HIDZ"). Their responsibilities are well-defined with clear functional positioning and regional specialization.

As the main urban developer in Pizhou City, JSRC undertakes urban renovation, shantytown renovation, and resettlement housing projects through its subsidiaries, Jiangsu Runcheng Asset Management Group Co., Ltd. and Pizhou Hengrun City Investment Co., Ltd. The Company mainly carries out infrastructure construction under agency construction model. Under the agent construction model, the Company signs entrusted construction contracts with its clients who are mainly government units and local state-owned enterprises, and takes the

responsibility for fundraising and construction work of the projects. After the project is completed and passed the acceptance examination, the local government would make payments based on the construction costs plus a certain markup (generally 5% to 25%) in return. As of 30 September 2023, the Company had 6 projects under construction, with a total investment of RMB7.2 billion and an uninvested amount of RMB883.0 million. Meanwhile, the Company also had 8 projects under planning, with a total investment of RMB3.5 billion, including the construction of roads, an educational center, a stadium and community facilities. The large project reserve supports the sustainability of the business.

Additionally, the Company is responsible for the development and sales of resettlement housing in Pizhou City. The Company's resettlement housing business models include targeted sales and area development model. Under the target sales model, the Company signs an agreement with the Housing Expropriation Office of Pizhou City ("Pizhou HEO") and is responsible for the construction and sales of the resettlement housing projects. The resettlement housing is sold at prices slightly higher than the costs under the guidance of the local government to resettlement households, while the payments are collected by and transferred from the Pizhou HEO. Under the area development model, the Company is responsible for the overall planning of the whole project, including demolition, construction of resettlement housing projects, and sales, which rely on the future development and operation of surrounding commercial projects, tax rebate and land transfer revenues to balance the initial investment. As of 30 September 2023, the Company had completed a series of resettlement housing construction projects, with a total investment of RMB4.2 billion. The Company also had 3 major resettlement housing projects under construction, with a total investment of RMB4.5 billion and an outstanding investment of RMB2.6 billion. At the same time, the Company had a project under planning with an estimated investment amount of RMB 2.1 billion, which may be conducted through area development model.

The Company is engaged in the engineering construction of water conservancy in Pizhou City including urban and rural areas with specific professional qualifications. As of 30 September 2023, the Company had 31 water conservancy construction projects under construction with a total contract amount of RMB1.2 billion. For the previous three years, this business's gross profit margin has remained above 20% and has been maintained at a relatively high level. The engineering construction of water conservation business generated revenue of RMB208.7 million and RMB124.5 million in 2022 and 2023Q3 respectively.

Overall, given its large project reserves, JSRC has a strong capacity for business sustainability in Pizhou City. We believe that the Company will maintain its vital position in Pizhou City and will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **Medium risk exposure to commercial activities**

JSRC participates in commercial activities including real estate development, property leasing, and financial investment. While commercial activities generate supplemental income, they may pose higher business risks than public business. The Company's risk exposure to commercial activities is considered medium, which accounted for around 20% of its total assets, based on our assessment.

Despite the resettlement housing, JSRC also undertakes commercial housing projects mainly under self-development and co-development models, which means the Company self-develops these projects or cooperates with other property developers. As of 30 September 2023, the Company had 2 self-developed projects under construction, with a total planned investment of RMB1.5 billion and an outstanding amount of RMB539.0 million, and had 3 land reserves with a total area of 234.0 thousand square meters for property development. The profits and sales progress of these commercial property projects are highly subject to the changes in the current property market, especially during the downturn in Chinese real estate market, which

would exert higher business and financial risks to the Company.

JSRC generates leasing income mainly through leasing industrial parks which were acquired through construction or acquisition. They were leased to the local government or its related parties out of the purpose of investment attraction such as the Management Committee of Pizhou HIDZ and the Pizhou City Guanhu Town Government. The overall occupancy rate is still low. In 2023, the Company recorded leasing income of RMB23.3 million. As of 30 September 2023, the Company had 2 industrial park projects under construction, with a planned total investment of RMB830.0 million and an outstanding amount of RMB434.0 million. The property leasing business is highly subject to the economic situation in Pizhou City and the progress of investment attraction which exposes the Company to certain business risks.

JSRC's financial investment sector includes equity and fund investment business. The equity investment is mainly for the purpose of attracting investment in Pizhou City, most of which have repurchase clauses; while the fund investment is mainly for the purpose of obtaining investment income and focuses on industries such as intelligent construction and electronic device manufacturing. The Company mainly invests in funds in the form of limited partner (LP) participation partnerships and the funds are managed by professional institutions. As of 30 September 2023, the Company's portfolio mainly includes 5 equities and 3 funds with an investment of around RMB1.0 billion. The Company plans to exit its investments through IPO listing or project repurchases. Overall, the scale of the Company's financial investment is relatively small and the risks are estimated to be controllable. However, due to the initial stage of its investment business and its limited investment experience, there are uncertainties in investment performance.

### Good track record of receiving government support

As the most important urban developer in Pizhou City, the Company has continuously received comprehensive support from the government in terms of capital injections, financial subsidies, and equity transfers. From 2021 to 2023, the Company received a cash injection of around RMB4.6 billion and an equity transfer of RMB22.5 million from the Finance Bureau of Pizhou City, totaling increased equity by around RMB3.0 billion. Meanwhile, the local government has provided subsidies of around RMB803.8 million to the Company over the same period. Overall, given its important position and contribution to regional economic development, we believe that JSRC will receive ongoing support from the local government.

### Exhibit 6. Track record of government support from 2021FY to 2023FY

(RMB million)	2021FY	2022FY	2023FY
Cash Injections	4,030.3	570.0	-
Asset Injections	0.3	7.1	15.1
Financial Subsidies	256.0	304.4	243.3
<b>Total</b>	<b>4,286.6</b>	<b>881.5</b>	<b>258.4</b>

Source: Company information, CCXAP Research

### Increasing debt burden and moderate asset liquidity

JSRC has shown a rising debt burden over the past few years mainly due to continued investment in construction projects, and slow settlement process and lagged payment of infrastructure and resettlement housing projects. From 2021 to 2023, the Company's total debt increased to RMB40.0 billion from RMB38.2 billion; while its capitalization ratio measured by total debt to total capital, slightly decreased to 52.8% from 53.4% as government support and profit accumulation. The Company's short-term debt decreased yearly but was still relatively high. As of year-end 2023, the short-term debt accounted for around 29.7% of total debt and its cash

to short-term debt ratio was around 0.1x, indicating that its cash balance was insufficient to cover its short-term debt. Given the Company's large capital expenditure needs mainly from the infrastructure construction business and the resettlement housing business in the future, we expect the Company to remain reliance on external financing, and its debt leverage will be maintained at a high level in the next 12 to 18 months.

#### Exhibit 7. Key Projects under construction and planning as of 30 September 2023

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<b>Project under construction</b>				
Infrastructure construction	6	7.2	6.3	0.9
Resettlement housing	3	4.5	1.9	2.6
<b>Project under planning</b>				
Infrastructure construction	8	3.5	-	3.5
Resettlement housing	1	2.1	0.2	1.9
<b>Total</b>	<b>18</b>	<b>17.3</b>	<b>8.4</b>	<b>8.9</b>

Source: Company information, CCXAP Research

Besides, JSRC's asset liquidity was moderate considering its high portion of inventories and other receivables with low liquidity. As of 31 December 2023, the Company's inventories and other receivables accounted for around 41.0% and 41.9% of the total assets, respectively. Inventories are mainly the costs for its infrastructure construction and resettlement housing projects. Meanwhile, the restricted portion of land in inventories is relatively high. Other receivables are mainly payments between government units or local state-owned enterprises with unclear recycle schedules, which may undermine the Company's financial position.

#### Good access to funding channels

JSRC has good access to various funding sources including bank loans, onshore bond financing and non-standard financing, which could partially release the pressure on debt repayment and capital expenditure. Bank borrowing is the main financing source, accounting for around 50% of the total debt, as of 31 December 2023. The Company maintains good relationships with large domestic banks including policy banks and large joint-stock commercial banks, such as the Agricultural Development Bank of China, China CITIC Bank, and Bank of Communications. The Company has sufficient standby liquidity which could alleviate certain short-term debt pressure. As of 31 December 2023, the Company had obtained total bank credit of around RMB42.7 billion, and the unutilized credit amounted to around RMB21.8 billion, with sufficient standby liquidity.

In addition, the Company has good access to onshore capital markets. The Company and its subsidiaries have issued several types of debt products such as private placement notes ("PPNs"), medium-term notes ("MTNs"), and corporate bonds. From January 2023 to April 2024, JSRC and its subsidiaries raised around RMB9.1 billion in the onshore debt market. JSRC had certain exposure to nonstandard financing, accounting for around 14% of the total debt as of 31 December 2023.

#### Medium level of contingent risk resulting from external guarantees

The credit profile of JSRC is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 31 December 2023, the Company had a relatively large amount of outstanding external guarantees of RMB17.4 billion, accounting for 48.6% of its net assets. Among them, the Company guaranteed four private-owned companies in accordance with the requirement of the local government, with an

amount of RMB309.1 million, and did not set up counter-guarantee measures. In the event of a credit event, the Company may be exposed to certain contingent liability risks. Most of the guarantees are provided to other state-owned enterprises within Pizhou City such as subsidiaries of PZII. We believe that the credit risk of the guarantee is moderately controllable, given the local government's support of some local state-owned enterprises in times of need.

## ESG Considerations

JSRC faces environmental risks as it has undertaken construction projects. The Company is obligated to comply by national environmental rules and regulations in relation to air pollution, noise emissions, water and waste discharge, and other environmental issues. Failure to comply with these regulations can result in fines, legal penalties, project delays, and reputational damage. 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.

JSRC bears social risks as it implements public policy initiatives by building public infrastructure in Pizhou City. 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. Such risks could be moderated by actively communication with different stakeholders throughout the project lifecycle.

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

## Structural Considerations

JSRC'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, 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 \(July 2022\)](#).

## Appendix

### Exhibit 8. Peer Comparison

	<b>Jiangsu Runcheng Urban Investment Holding Group Co., Ltd.</b>	<b>Pizhou Industrial Investment Holding Group Co., Ltd.</b>
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>
Shareholder	Finance Bureau of Pizhou City (100%)	Finance Bureau of Pizhou City (100%)
Positioning	Key entity for urban infrastructure and resettlement housing in Pizhou City	Key entity for infrastructure construction and industrial investment in Pizhou City, particularly in Pizhou EDZ and Pizhou HIDZ
Total Assets (RMB billion)	84.3	44.7
Total Equity (RMB billion)	35.7	20.5
Total Revenue (RMB billion)	3.9	1.3

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company data, CCXAP research



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