

Credit Opinion

19 July 2024

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

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Zhenjiang Transportation Industry Group Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Zhenjiang Transportation Industry Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Zhenjiang Transportation Industry Group Co., Ltd. ("ZJTI" or the "Company") to BBB_g+, reflecting the stronger capacity to provide support from Zhenjiang Municipal Government with ongoing economic and fiscal growth as well as ZJTI's good track record of receiving government support.

The BBB_g long-term credit rating of ZJTI reflects Zhenjiang Municipal Government's (1) very strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Zhenjiang Municipal Government's capacity to provide support reflects Zhenjiang City's good industrial foundation, ongoing economic growth and moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong policy role in transportation infrastructure construction of Zhenjiang City; (2) good track record of receiving government payments; and (3) diversified and stable funding sources with declining financing costs.

However, the Company's rating is constrained by its (1) moderate exposure to commercial activities; (2) high debt leverage with large short-term debt; and (3) high exposure to external guarantees, with certain contingent liability risk.

The stable outlook on ZJTI's rating reflects our expectation that Zhenjiang Municipal Government's capacity to provide support will remain stable, and the Company's characteristics such as its primary role in transportation infrastructure construction will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Strong policy role in transportation infrastructure construction of Zhenjiang City
- Moderate sustainability for public-policy projects
- Moderate exposure to commercial activities
- High debt leverage with large short-term debt, but declining debt burden
- Diversified and stable funding sources with declining financing costs
- Good track record of receiving government payments
- High exposure to external guarantees, with certain contingent liability risk

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Zhenjiang Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, decreased government payments or increased exposure to risky commercial activities.

Key Indicators

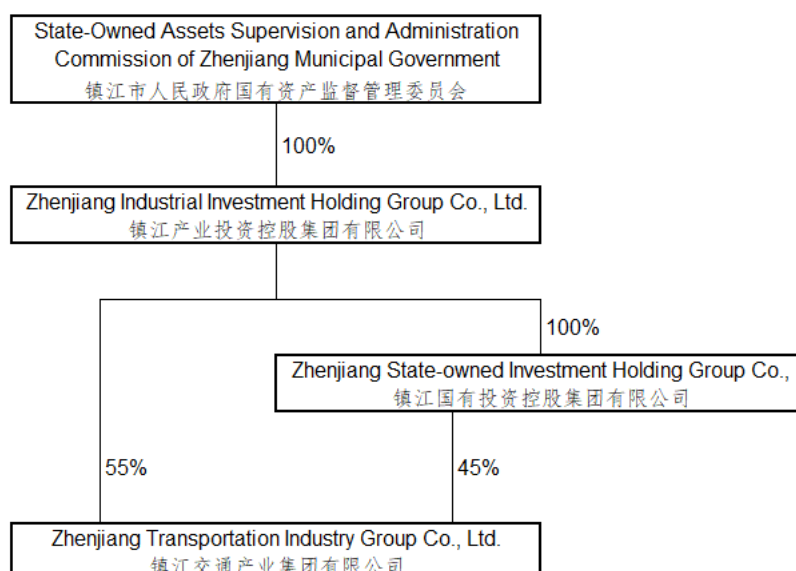
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	122.4	120.3	125.6	123.2
Total Equity (RMB billion)	48.5	50.0	50.0	49.9
Total Revenue (RMB billion)	8.3	9.0	7.8	2.3
Total Debt/Total Capital (%)	59.0	55.2	54.9	54.5

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

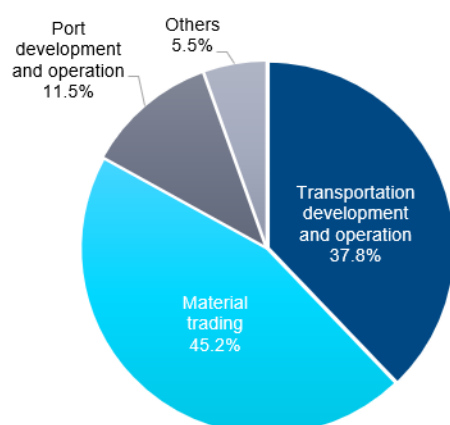
Source: Company data, CCXAP research

Corporate Profile

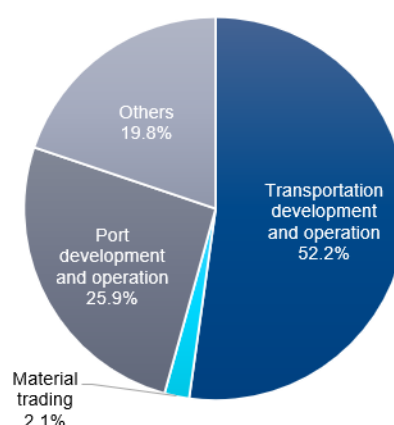
Established in November 1992, ZJTI is one of the key local infrastructure investment and financing companies ("LIIFCs") in Zhenjiang City, Jiangsu Province. ZJTI engages in local infrastructure construction, resettlement housing construction and land development in Zhenjiang City. ZJTI is also involved in different commercial businesses including trading, road and bridge construction services, industrial park construction and operation, port operations and automobile sales. In October 2023, the State-Owned Assets Supervision and Administration Commission of Zhenjiang Municipal Government ("Zhenjiang SASAC") transferred its 55% stakes of the Company and 100% stakes of Zhenjiang State-owned Investment Holding Group Co., Ltd. ("ZJSH") to Zhenjiang Industrial Investment Holding Group Co., Ltd. ("ZIIH"), which is wholly-owned by the Zhenjiang SASAC. As of 31 March 2024, ZIIH directly holds 55% and indirectly holds 45% of the Company's shares through ZJSH. Despite the change in shareholding structure, Zhenjiang SASAC remained the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 31 March 2024

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 Zhenjiang Municipal Government has a very strong capacity to provide support given its good industrial foundation, ongoing economic growth and moderate fiscal metrics.

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 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 GRP per capita for the same period was RMB150,487, ranking first among all provinces in China.

Zhenjiang City is a prefecture-level city under the jurisdiction of Jiangsu Province, located in the southern part of Jiangsu Province. It is an important advanced manufacturing base in the Yangtze River Delta region.

Moreover, it is one of the core cities of the "Suzhou-Wuxi-Changzhou Economic Circle" and the "Nanjing Metropolitan Circle". Zhenjiang City has a good economic and industrial foundation. It is a key production area of glasses and vinegar in China and is currently developing emerging industries such as high-end equipment manufacturing and new material production. In 2023, Zhenjiang City's fixed asset investment above the designated size increased by 7.0% over the previous year. Meanwhile, it has demonstrated ongoing economic growth, with GRP growing by 6.3% YoY to RMB526.4 billion in 2023. Over the same period, the local government's general budgetary revenue increased to RMB32.1 billion from RMB30.4 billion in 2022. Tax contribution recovered to 71.6% in 2023 so the 3-year average fiscal stability (tax/general budget revenue) increased to 71.8%, indicating a strong revenue-generating ability. However, the fiscal sufficiency of Zhenjiang Municipal Government remained moderate, as reflected by its average self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) over the past three years was around 59%. Due to its moderate self-sufficiency, Zhenjiang City's has relied on land transfer income for fiscal balance. From 2021 to 2023, Zhenjiang Municipal Government's government fund income increased from RMB39.5 billion to RMB40.7 billion. However, its government fund income may bear relatively high volatility in the future during the downturn of Chinese property market. Meanwhile, due to the continuous investment in fixed assets, Zhenjiang Municipal Government's debt burden increased rapidly, driven by ongoing support in regional development, and reached RMB245.9 billion as of the end of 2023, accounting for about 46.7% of GRP.

Exhibit 4. Key economic and fiscal indicators of Zhenjiang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	476.3	501.7	526.4
GRP Growth (%)	9.4	2.9	6.3
General Budgetary Revenue (RMB billion)	32.8	30.4	32.1
General Budgetary Expenditure (RMB billion)	54.3	53.6	53.4
Local Government Debt (RMB billion)	191.8	218.9	245.9

Source: Zhenjiang Municipal Government, CCXAP research

Government's Willingness to Provide Support

Strong policy role in transportation infrastructure construction of Zhenjiang City

As the sole LIIFC engaged in infrastructure construction in Zhenjiang City and land development projects in the Guantang Innovation Community Area ("Guantang Area"), ZJTI has maintained strong business position in Zhenjiang City as it owns a large number of assets in local public activities, including transportation infrastructure, public transportation, primary land development, and resettlement housing. We consider the importance of ZJTI's public assets to be high because the Company provide a strong benefit to local economic and social development, such as improving the local transportation network and living environment. In addition to local transportation infrastructure construction, it is also responsible for the management of some local state-owned assets such as construction services, industrial park construction and operation, port operations, material trading and car sales. In view of its important role and business position in Zhenjiang City, we believe that the Company is unlikely to be replaced by other LIIFCs in the future.

In 2023, guided by the local government, ZIIH has consolidated two local state-owned enterprises, namely Zhenjiang State-owned Investment Holding Group Co., Ltd. and ZJTI. ZIIH is the core platform for industrial investment in Zhenjiang and mainly responsible for state-owned capital operation, investment and financial services, transportation infrastructure construction, urban services and franchising.

Moderate sustainability for public-policy projects

ZJTI assumes the function to implement Zhenjiang Municipal Government's development strategy and planning, and is mandated to conduct various local public activities, including transportation infrastructure construction, land development, and resettlement housing construction. However, due to the slowdown in local infrastructure demand and government planning, there are no transportation infrastructure and resettlement housing projects under planning, with moderate business sustainability.

ZJTI has undertaken a large number of infrastructure construction projects in Zhenjiang City, such as roads and schools. The Company has mostly completed the investments in the infrastructure projects under construction, with low future investment pressure. As of 31 March 2024, the Company had invested RMB10.4 billion into infrastructure projects under construction, with an uninvested amount of RMB156 million. As there is no project under planning, the business sustainability is subject to uncertainty.

Besides, ZJTI is also responsible for resettlement housing construction in Zhenjiang City pursuant to local resettlement housing plan. All the completed projects have repurchased by the local government, with good payment collection. With years of development, the resettlement housing projects have been mostly completed, with low future investment pressure. As of 31 March 2024, the Company completed several resettlement housing projects, benefiting the social welfare of Zhenjiang citizens. The total investment amount was RMB2.5 billion, and payments totaling RMB3.0 billion were collected. At the same time, the Company had only one resettlement housing project under construction, with an uninvested amount of RMB65 million. With no project under planning, the sustainability of business is subject to uncertainty.

As the sole developer in the Guantang Area, ZJTI is entrusted by the local government to undertake a large amount of land consolidation projects in the Guantang Area. The Company still has sufficient land development resources in hand, ensuring its business sustainability. As of 31 March 2024, the Company had 3,028.2 mu of land under development, with uninvested amount of RMB564 million. In addition, the business is susceptible to local land policy and property market, resulting in uncertainties in land income.

The Company is also the sole entity providing public transportation services in Zhenjiang City, with good business stability. Due to its public welfare nature, the business is highly dependent on government subsidies to cover the operating costs.

Moderate exposure to commercial activities

ZJTI is engaged in diversified commercial activities such as trading, road and bridge construction services, inland terminal depot services, and industrial park construction and operation. Considering the ongoing investment and expansion in commercial activities, we estimate the Company has moderate exposure to commercial business.

ZJTI's material trading business mainly includes trading of steel and chemical raw materials, with relatively low business risks as it is operated under a demand-driven model and downstream customers are relatively stable. It is the largest income source for the Company, consecutively contributing more than 45% of the total revenue over the past three years. However, the business started to face certain concentration risks in procurement and sales. In 2023, the procurement from the top five suppliers accounted for 63.9% of the total procurement, while the sales to the top five customers accounted for 63.6% of the total sales. The Company has been actively compressing the material trading segment's scale since 2023, leading to a decline in revenue from RMB4.4 billion in 2022 to RMB3.3 billion in 2023. With the Company's intention of tightening the material trading's scale, we expect ZJTI's revenue from material trading may further decrease.

Since 2020, ZJTI has been engaged in road and bridge engineering construction business through the acquisition of Jiangsu Zhenjiang Road and Bridge Engineering Co., Ltd (“JSRB”). JSRB obtains engineering projects through public tendering and signs contracts with related asset owners. 80% of its projects are in Jiangsu Province, the remaining 20% are in other provinces such as Anhui, Henan, and Yunnan Provinces. In 2023, the newly signed contract projects were mainly concentrated in Jiangsu Province, with a total amount of RMB2.2 billion. At end-2023, JSRB has sufficient project reserves with RMB7.9 billion of contract value under construction. Nevertheless, although this business segment has enriched ZJTI’s revenue and has brought considerable profits to the Company, the increasing project scale and advanced payment in construction projects have resulted in certain capital occupation.

ZJTI has a strong franchise in its inland terminal depot services and has priority in the development of shoreline and land areas in Zhenjiang City. In recent years, with the improvement of port infrastructure and the enhancement of annual throughput capacity, the scale of depot business revenue has gradually emerged, with revenue growing from RMB615.7 million in 2021 to RMB847.1 million in 2023.

In addition, ZJTI has taken part in industrial park development since April 2023. As of 31 March 2024, the Company had one industrial park project under construction with an investment amount of RMB450 million and an outstanding amount of RMB242.0 million. Meanwhile, the Company has one industrial park project under planning with total estimated investment of RMB1.0 billion. The Company is expected to achieve fund balancing through management fee and leasing income.

Good track record of receiving government payments

ZJTI has a solid track record of receiving government payments in various forms, including specific funds, financial subsidies, repurchase payments, and cash injections. The Company received ongoing financial subsidies from the government to support its road construction projects, amounting to RMB760.5 million from 2023 to 2024Q1. The local government has also regularly made repurchase payments to the Company. As of 31 March 2024, the Company received government payments of RMB16.8 billion for the completed construction projects, including land development, infrastructure construction, and resettlement housing. In addition, the Zhenjiang Municipal Government allocates a large amount of land assets and grants the land development rights and land income rights to the Company. We expect the local government will continue to provide payment support to the Company over the next 12 to 18 months, given its strong public policy role and large scale of uncollected project payments.

High debt leverage with large short-term debt, but declining debt burden

Along with the repayment of mature debts through government special funds and government payments, ZJTI’s debt burden demonstrated a downward trend over the past three years, yet its debt leverage remains high. The Company’s total debt (including perpetual debt) decreased from RMB61.2 billion at end-2022 to RMB57.5 billion at end-2024Q1; and its total capitalization ratio decreased from 55.2% to 54.5%. However, the Company still has high short-term debt servicing pressure, with the short-term debt accounting for 41% of the total debt at end-2024Q1. Given that the Company will continue to rely on external financing to meet future capital needs from infrastructure projects, we expect that its debt leverage is likely to remain at a relatively high level in the next 12 to 18 months.

ZJTI’s asset liquidity is considered weak, which may undermine its financial flexibility. The Company’s assets mainly consist of inventories and investment properties, totally accounting for 81.4% of total assets as of 31 March 2024, all with relatively low liquidity. The inventories are mainly development costs from construction

projects, while the investment properties mainly consist of lands pending for sale. At the same time, the Company pledged a number of assets for loans, including lands and cash, with a total restricted amount of RMB21.6 billion, accounting for 17.6% of its total assets.

Diversified and stable funding sources with declining financing costs

ZJTI has access to diversified financing channels including onshore and offshore capital markets, bank borrowing and non-standard financing which could partially mitigate the Company's financing pressure. Bank loans and bond issuances accounted for the majority of its total debt. The Company has maintained a good relationship with large domestic banks such as the Industrial and Commercial Bank of China Ltd. and the Bank of Communications Co., Ltd. As of 31 March 2024, it obtained total credit facilities of RMB53.0 billion, with available credit facilities of RMB20.3 billion, indicating sufficient liquidity buffer.

The Company also has an active track record of issuing various financial products in the domestic bond market such as private corporate bonds, SCPs, CPs, MTNs, and PPNs. With the favorable refinancing conditions, the Company financing costs continue to decline. From 2021 to 2023, the Company's average financing cost was around 6.7%, 6.1%, and 5.5%, respectively. From January 2023 to June 2024, ZJTI had issued 40 tranches of different bond instruments, raising RMB19.8 billion with coupon rate between 2.13% to 5.47%. In addition, the Company has a presence in the offshore debt capital market. In 2022, it issued two tranches of offshore bonds raising USD220 million. Furthermore, the Company decreased its exposure to non-standard financing in 2023, which accounted for around 10% of its total debt as of 31 March 2024.

High exposure to external guarantees, with certain contingent liability risk

ZJTI's credit profile is constrained by its high exposure to contingent liabilities. As of 31 March 2024, the Company has provided external guarantees of RMB23.7 billion to third parties, equivalent to 47.5% of its net assets. Most of these external guarantees are provided to other local LIIFCs or state-owned enterprises, and part of these guarantees have sufficient counter-guarantee measures. Considering the government support and counter-guarantee measures, the credit risk of these guarantees among local state-owned companies is moderately controllable.

However, ZJTI has provided RMB407 million in external guarantees for Jiangsu Traffic Engineering Group Co., Ltd., which has been listed as person subject to enforcement. In addition, the Company had compensated RMB154.0 million in external guarantees in 2016, yet only received a recovery payment of RMB5.0 million as of 31 March 2024.

ESG Considerations

ZJTI bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

The Company is also exposed to social risks as a public services provider. Demographic changes, public awareness, and social priorities shape the government's target for ZJTI and affect the government's propensity to support the Company.

ZJTI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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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