

## Credit Opinion

29 August 2024

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

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## Hunan Jinxia Development Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Hunan Jinxia Development Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Hunan Jinxia Development Group Co., Ltd. ("HJDG" or the "Company") reflects Kaifu 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 Kaifu District Government's capacity to provide support reflects Kaifu District's continuous economic growth and good fiscal balance. As a provincial-level EDZ located in Kaifu District, Changsha Jinxia Economic Development Zone ("Jinxia EDZ") is the first batch of key development zones in Hunan Province approved by the State Council and also the only comprehensive modern logistics park in Hunan Province.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) key role in infrastructure construction and land consolidation of Jinxia EDZ; (2) good track record of receiving government support; and (3) access to funding from commercial banks and bond market.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) fast debt growth with liquidity pressure; and (3) relatively low asset liquidity.

The stable outlook on HJDG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its key role in the infrastructure construction and land consolidation of Jinxia EDZ.

## Rating Drivers

- Key role in infrastructure construction and land consolidation of Jinxia EDZ
- High sustainability for public policy businesses
- Medium exposure to commercial activities
- Good track record of receiving government support
- Fast debt growth, with liquidity pressure
- Relatively low asset liquidity
- Access to funding from commercial banks and bond market

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in the exposure to commercial activities.

### 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 regional significance or weakened access to funding.

## Key Indicators

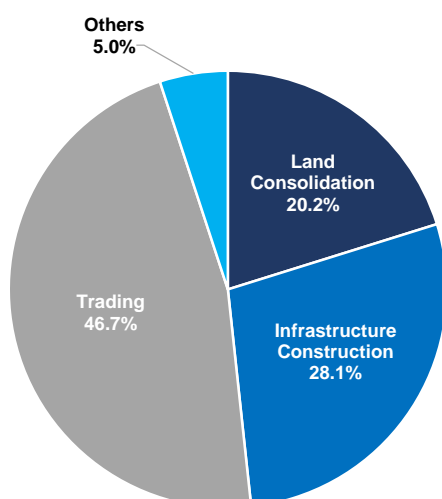
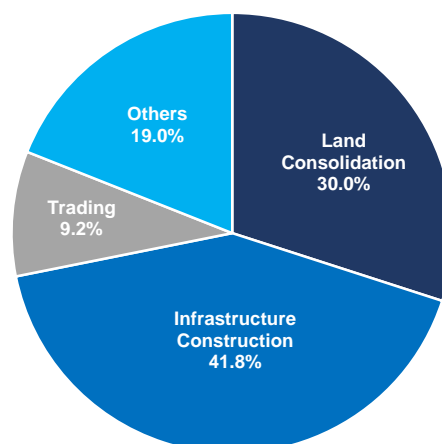
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	26.3	30.2	31.9	32.3
Total Equity (RMB billion)	11.0	12.5	13.0	13.0
Total Revenue (RMB billion)	3.7	3.7	3.5	0.1
Total Debt/Total Capital (%)	56.0	56.9	57.5	58.0

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

Source: Company information, CCXAP research

## Corporate Profile

Established in 2017, HJDG is the only infrastructure construction and land consolidation entity in Jinxia EDZ of Kaifu District, Changsha City. The Company continues to be engaged in infrastructure construction and land consolidation projects in Jinxia EDZ. It has also participated in other commercial activities. As of 31 March 2024, the Company was wholly owned and ultimately controlled by Changsha Kaifu District People's Government.

**Exhibit 1. Revenue Structure in 2023****Exhibit 2. Gross Profit Structure in 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Kaifu District Government has a strong capacity to provide support, given its continuous economic growth, and good fiscal balance.

Located in the central part of China, Hunan Province serves as important grain production base, energy and raw material base, modern equipment manufacturing and high-tech industrial base and comprehensive transportation hub in China. With the good transportation and resource advantages, Hunan Province's economic strength improved with general regional product ("GRP") increasing from RMB4.9 trillion to RMB5.0 trillion from 2022 to 2023, ranking 9<sup>th</sup> among all provinces in China and the third among 6 provinces in central China. Its general public budget revenue increased to RMB336.1 billion in 2023 from RMB310.2 billion in 2022, with tax revenue accounting for 65.7% of its general public budget revenue. Meanwhile, Hunan Province Government has a relatively large debt burden. In 2023, Hunan Province had an outstanding direct government debt balance of RMB1.8 trillion, accounting for 36.4% of the Hunan Province's GRP.

Changsha City is the capital of Hunan Province. It is an important central city in the middle reaches of the Yangtze River and one of the first batch of national historical and cultural cities. Changsha City has seven pillar industries including construction machinery, automobiles, biomedicine, electronic information, cultural creativity, tourism, and food manufacturing. Benefiting from economic recovery, Changsha's GRP increased to RMB1.4 trillion and general budgetary revenue increased to RMB122.7 billion in 2023, with tax income accounting for 71.0% of its fiscal revenue. At the end of 2023, Changsha's local government debt balance was RMB305.0 billion, accounting for 21.3% of GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Changsha City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,327.1	1,396.6	1,433.2
GRP Growth (%)	7.5	4.5	4.8
General Budgetary Revenue (RMB billion)	118.8	120.2	122.7
General Budgetary Expenditure (RMB billion)	154.2	154.9	162.7

Local Government Debt (RMB billion)	255.4	287.0	305.0
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Source: Statistics Bureau of Changsha City, CCXAP research

Located in the north of Changsha City, Kaifu District is one of the five districts in Changsha City. Kaifu District has jurisdiction over Jinxia EDZ and 16 streets, covering a total area of 188 square kilometers. Kaifu District has formed an industrial cluster with video cultural creation, intelligent manufacturing, modern logistics and high-end service industry as its main industries. Kaifu District has demonstrated ongoing economic growth over the past year, with its GRP increased from RMB118.0 billion in 2022 to RMB123.4 billion in 2023. Its general budgetary revenue increased from RMB6.4 billion in 2022 to RMB6.5 billion in 2023. The tax revenue mainly comes from three dominant industries including finance and commerce, cultural creativity, as well as logistics and trade. It has good fiscal balance, with self-sufficiency ratio of 80.3% in 2023. In addition, the Kaifu District Government has outstanding government debt of RMB7.5 billion at end-2023, accounting for 6.1% of its GRP.

#### Exhibit 4. Key Economic and Fiscal Indicators of Kaifu District

	2021FY	2022FY	2023FY
GRP (RMB billion)	113.5	118.0	123.4
GRP Growth (%)	8.0	4.1	4.0
General Budgetary Revenue (RMB billion)	6.7	6.4	6.5
General Budgetary Expenditure (RMB billion)	7.5	8.2	8.1
Local Government Debt (RMB billion)	4.9	5.7	7.5

Source: Statistics Bureau of Kaifu District, CCXAP research

Established in 1992, Jinxia EDZ is provincial-level EDZ located in Kaifu District, covering an area of 84 square kilometers. It is the first batch of key development zones in Hunan Province approved by the State Council and also the only comprehensive modern logistics park in Hunan Province. Jinxia EDZ has formed two core industry layout, namely smart logistics and smart manufacturing. Its economic indicators remained stable with an upward trend. In 2023, tax revenue of Jinxia EDZ increased by 10% year-on-year (“YoY”), the added value of industrial output increased by 9.4% YoY, and fixed assets investment grew 12.7% YoY.

#### Government’s Willingness to Provide Support

##### Key role in infrastructure construction and land consolidation in Jinxia EDZ

There are two primary infrastructure investment and financing Companies (“LIIFCs”) in Kaifu District, including HJDG and Changsha Kaifu City Investment Group Co., Ltd. (“KCIG”), each with clear positioning in the development of the region. As the sole entity responsible for infrastructure construction and land consolidation in Jinxia EDZ, HJDG makes large contribution to comprehensive regional development by undertaking large amount of road construction and land consolidation projects in Jinxia EDZ. Given HJDG’s key role in infrastructure construction and land consolidation in Jinxia EDZ, we believe that the Company is unlikely to be replaced by other SOEs in the foreseeable future.

##### High sustainability for public policy businesses

As the main developer in Jinxia EDZ, HJDG has high sustainability in undertaking infrastructure construction and land development projects in the region. With large projects under pipeline and sufficient land for development, we believe that the Company’s public policy businesses are highly sustainable.

Signing agreement with the Management Committee of Jinxia EDZ, the Company continues to undertake infrastructure construction projects under agency construction model. As of 31 March 2024, the Company's major infrastructure construction projects under construction or planning required a total estimated investment of RMB2.6 billion, with uninvested amount of RMB1.0 billion. The investment funds for agency construction projects are mainly covered by special government funds.

Besides, the Company also conducts land consolidation business in the area, with monopoly status for this business in Jinxia EDZ. As of 31 March 2024, land consolidation projects under construction or planning required a total estimated investment of RMB3.0 billion and uninvested amount of RMB2.7 billion. Considerable construction projects under pipeline and developable lands can ensure the sustainability of the Company's public policy businesses. However, the land consolidation business is significantly influenced by land market conditions and housing policies.

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

In addition to public activities, HJDG is also engaged in commercial businesses, mainly including trading businesses, property sales and property leasing. We consider the Company's exposure to commercial businesses to be medium, accounting for less than 20% of its total assets. However, the construction costs from self-operating projects have exerted certain future capital need to the Company.

The Company remains actively involved in trading business. The main trading products are refined oil, asphalt and grain. This business serves as the largest revenue source for the Company. In 2023, the trading revenue increased by 1.7% YoY to RMB1.6 billion, accounting for 46.7% of its total revenue, but with low gross profit margin of 2.2%. In addition, the Company's relatively high reliance on its top 5 customers and suppliers indicates concentration risks for this business, with top 5 suppliers accounting for 74.0% of total purchase and top 5 customers accounting for 72.0% of total sales.

HJDG also participates in property sales and property leasing of self-operating projects in Jinxia EDZ, including car parks, industrial parks, and tourism, which will provide supplemental income to the Company after completion of construction. As of 31 March 2024, the Company had 10 self-operated projects under construction, with a total planned investment of RMB4.5 billion and uninvested amount of RMB1.5 billion, indicating certain expenditure pressure. With ongoing investment into the self-operating projects, we expect the Company's exposure to commercial activities will gradually increase.

### **Good track record of receiving government support**

HJDG has good track record of receiving support from the local government in the form of capital injection and fiscal subsidy. The Company has received ongoing capital injection, significantly enhancing its capital strength. Its paid-in capital has increased to RMB538 million as of 31 March 2024 compared to RMB338 million as of 31 December 2022. From 2023 to 2024Q1, the Company totally received government subsidies of about RMB194.0 million. Given its key status in undertaking infrastructure construction projects in Jinxia EDZ, we believe that the local government will continue to provide support to the Company.

### **Fast debt growth, with liquidity pressure**

HJDG has fast debt growth over the past year. The Company's total debt had increased from RMB16.5 billion at end-2022 to RMB18.0 billion at 31 March 2024, with total capitalization ratio of 58.0%. The increase in debt is mainly attributable to the ongoing external financing for land consolidation and infrastructure construction projects. In addition, as of 31 March 2024, the Company's short-term debt accounted for about 32.5% of total

debt, indicating moderate liquidity pressure. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

### **Relatively low asset liquidity**

HJDG has relatively low asset liquidity, which may affect its financing flexibility. As of 31 March 2024, the Company's inventories and the total receivables accounted for 71.9% of its total asset. Inventories are mainly development costs for land consolidation and infrastructure construction projects, while the total receivables are uncollected payments from the local government, both of which are considered as low liquidity. Furthermore, as of 31 March 2024, the Company had pledged assets of RMB3.7 billion for loans, accounting for 11.4% of total assets.

### **Access to funding from commercial banks and bond market**

HJDG has diversified funding channels, including both banks and bond markets. The Company has an approved line of credit from diversified commercial and policy banks, such as Industrial and Commercial Bank of China and Agricultural Development Bank. As of 31 March 2024, it had obtained total credit facilities of RMB32.0 billion, with available credit facilities of RMB15.7 billion. The Company also has access to bond markets. From January 2023 to April 2024, it had issued 6 tranches of bond products, including private bonds, PPNs and MTNs, raising about RMB3.0 billion.

## **ESG Considerations**

HJDG faces environmental risks because it has undertaken infrastructure construction and land development 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.

HJDG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Jinxia EDZ. 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.

HJDG's governance considerations are also material as the Company is subject to oversight by the Kaifu 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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