

Credit Opinion

12 December 2024

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

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Ganzhou Jianxing Holding Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Ganzhou Jianxing Holding Investment Group Co., Ltd.'s long-term credit rating to BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Ganzhou Jianxing Holding Investment Group Co., Ltd. ("GJHI" or the "Company") reflects (1) Zhanggong District Government's strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Zhanggong District Government's capacity to provide support reflects its strong economic importance in Ganzhou City, with good comprehensive strength and ongoing economic growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) most important position in the development of Zhanggong District; (2) high sustainability of public policy businesses; and (3) good track record of receiving government support.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities, especially in property development; (2) increasing debt level with relatively high short-term debt repayment pressure; and (3) weak asset liquidity.

The stable outlook on GJHI's rating reflects our expectation that the Company will maintain its most important position in the development in Zhanggong District. We also expect that the Company will continue to receive ongoing government support.

Rating Drivers

- Most important position in the development of Zhanggong District
- High sustainability of public policy businesses
- Medium exposure to commercial activities, especially in property development
- Good track record of receiving government support
- Increasing debt level with relatively high short-term debt repayment pressure
- Weak asset liquidity
- Multiple access to fundings with relatively high reliance on non-standard financing

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) local 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 materially decrease in its exposure to commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) local 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 decrease in its regional importance, material decrease in government payments, or deteriorated liquidity profile.

Key Indicators

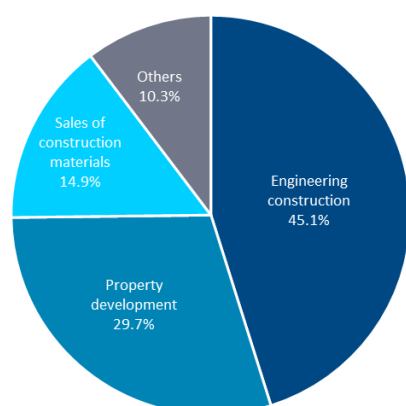
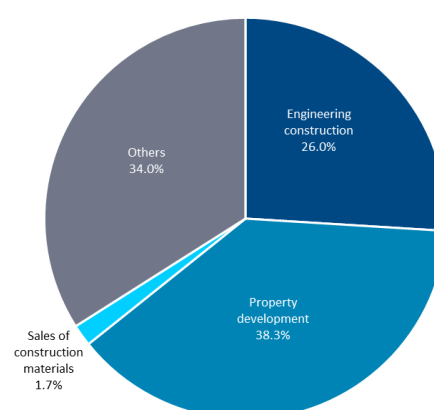
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	31.4	36.0	39.0	41.2
Total Equity (RMB billion)	10.9	13.5	15.8	16.2
Total Revenue (RMB billion)	1.4	1.8	1.9	1.4
Total Debt/Total Capital (%)	47.8	43.9	40.7	42.2

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2018, GJHI is the most important local infrastructure investment and financing company ("LIIFC") in Zhanggong District, Ganzhou City. The Company mainly engages in infrastructure construction and resettlement housing construction in Zhanggong District. It is also engaged in commercial businesses such as property development, property leasing, waste material disposal, urban appearance and environmental protection business, catering and accommodation services and sales of construction materials. As of 30 September 2024, the Company was wholly owned and directly controlled by the State-owned Assets Supervision and Administration Office of Zhanggong District of Ganzhou City.

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 Zhanggong District Government has strong capacity to provide support given its strong economic importance in Ganzhou City, with good comprehensive strength and ongoing economic growth.

Jiangxi Province is located in the central-southern part of China and its economic strength lies at middle level among all provinces in China. In 2023, Jiangxi Province's Gross Regional Product ("GRP") reached RMB3.2 trillion, ranking 15th among all provinces in China, with a year-on-year ("YoY") increase of 4.1%. In the first three quarter of 2024, the GRP of Jiangxi Province reached RMB2.4 trillion, up 4.7% YoY. Its general budgetary revenue increased from RMB294.8 billion in 2022 to RMB306.0 billion in 2023, as a result of a significant increase in tax revenue to RMB 202.2 billion with a relatively high YoY growth rate of 13.0%.

Ganzhou City is a prefecture-level city located in the southern part of Jiangxi Province. With ongoing development of traditional industries like nonferrous metal mining and cutting-edge industries like software engineering and pharmaceutical, Ganzhou City's economy grew steadily in recent years. In 2023, Ganzhou City's GRP increased by 5.3% YoY to RMB460.6 billion, ranking 2nd among all cities in Jiangxi Province. In the first three quarter of 2024, the GRP of Ganzhou City reached RMB349.2 billion, up 5.4% YoY. Ganzhou Municipal Government's general budgetary revenue increased from RMB30.6 billion in 2022 to RMB32.0 billion in 2023. However, its fiscal balance ratio is relatively low, averaging at 30.2% over the past three years. As at end-2023, its outstanding governmental debt amounted to RMB190.3 billion, equivalent to 41.3% of its GRP.

Exhibit 3. Key economic and fiscal indicators of Ganzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	416.9	452.4	460.6
GRP Growth (%)	9.1	5.2	5.3
General Budgetary Revenue (RMB billion)	29.4	30.6	32.0
General Budgetary Expenditure (RMB billion)	96.1	98.8	110.1
Local Government Debt (RMB billion)	118.9	159.1	190.3

Source: Statistics Bureau of Ganzhou City, CCXAP research

Zhanggong District is the central urban area of Ganzhou City, with total area of 375.5 square kilometers. It has high economic and political importance in Ganzhou City, with relatively good comprehensive strength. In 2024, it ranked 76th among top 100 districts in China. In recent years, Zhanggong District has formed three pillar industries including nonferrous metal mining, pharmaceuticals, and digital economy. With geographical advantages, Zhanggong District has achieved ongoing economic growth in recent years. The GRP of Zhanggong District increased from RMB66.1 billion in 2022 to RMB68.1 billion in 2023, ranking 1st among all districts/counties in Ganzhou City. In the first three quarter of 2024, the GRP of Zhanggong District reached RMB51.9 billion, up 5.7% YoY. In 2023, Zhanggong District Government's general budgetary revenue also increased to RMB2.6 billion, with tax income accounting for 81.9%, compared to 65.7% in 2022, indicating improving fiscal stability. However, Zhanggong District also has moderate fiscal self-sufficiency, averaging at 54.5% for the past three years. Zhanggong District reported outstanding governmental debt of RMB9.4 billion at end-2023, representing 13.8% of GRP.

Exhibit 4. Key economic and fiscal indicators of Zhanggong District

	2021FY	2022FY	2023FY
GRP (RMB billion)	60.7	66.1	68.1
GRP Growth (%)	9.9	5.8	5.2
General Budgetary Revenue (RMB billion)	2.3	2.3	2.6
General Budgetary Expenditure (RMB billion)	4.0	4.6	4.6
Local Government Debt (RMB billion)	4.8	7.7	9.4

Source: Statistics Bureau of Zhanggong District, CCXAP research

Government's Willingness to Provide Support

Most important position in the development of Zhanggong District

GJHI is the largest and most important LIIFC in Zhanggong District, conducting local infrastructure and resettlement housing construction projects through its primary subsidiary, Ganzhou Zhanggong Area Construction Investment Group Co Ltd ("GZCI"). Considering that GJHI owns large amount of infrastructure assets in Zhanggong District, we believe that the Company has most important position in the development of the region and will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses

As the major city infrastructure constructor of Zhanggong District, GJHI has undertaken large amount of agent construction projects in the region, focusing on infrastructure construction and resettlement housing. The infrastructure construction projects in the pipelines will ensure the sustainability of the business, but also bring certain capital expenditure pressure to the Company.

The Company undertakes infrastructure construction projects by entering into agent construction agreements with Zhanggong District Government, usually receiving 10% markup after project completion. As of 30 June 2024, GJHI had completed 21 infrastructure construction projects, with a total investment of RMB5.5 billion and a confirmed revenue of RMB1.8 billion. However, the timing of the repayments depends on the government's arrangement and fiscal position. Meanwhile, the Company had 4 infrastructure projects under construction, with a total planned investment of RMB2.4 billion and an uninvested amount of RMB1.5 billion. In addition, the Company had 10 infrastructure projects under planning, with a total estimated investment of RMB1.4 billion.

GJHI also involves in resettlement housing construction projects in Zhanggong District under agency construction model and self-balance model. As of 30 June 2024, the Company had completed 16 agent-

constructed resettlement housing projects with a total investment of RMB5.9 billion and 7 self-operated resettlement housing projects with a total investment of RMB1.8 billion. Furthermore, the Company had 3 resettlement housing agency projects under construction with a total investment of RMB1.2 billion and 1 self-operated resettlement housing projects under construction with a total investment of RMB1.8 billion. Meanwhile, the Company had 3 resettlement housing agency projects under planning with an estimated investment of RMB1.7 billion. Given the large investment amount on these projects, coupled with relatively long construction and payback periods, we believe the Company will face large capital expenditure and debt repayment pressure.

Medium exposure to commercial activities, especially in property development

GJHI has medium exposure to commercial activities, as its commercial assets accounted for around 20-25% of total asset as of 30 June 2024. The commercial businesses include property development, property leasing, waste material disposal, urban appearance and environmental protection business, catering and accommodation services and sales of construction materials. We believe that the commercial risks are largely controllable as most of the commercial businesses provide supplementary income and reasonable profit to the Company, which nevertheless are susceptible to fluctuations in property market and the macro-environment.

GJHI's property development business mainly involves construction and sales of residential housing in Zhanggong District, mainly operated by its subsidiaries. As of 30 June 2024, the Company had completed 5 property development projects with a total investment of RMB1.6 billion and overall selling rate of about 70%, indicating relatively good selling progress. However, some projects have high destocking pressure amid the decelerated property market in China and future sales require continuous attention. Besides, the Company had 1 real estate project under construction with a total investment of RMB260 million and an uninvested amount of RMB161 million. In 2023, the revenue from property development significantly increased to RMB563 million, up 24.8% YoY, with a gross profit margin of 21.1%. However, the income from property development is susceptible to regional property market and progress of construction, which inevitably expose the Company to more operational and financial risks.

GJHI also engages in sales of construction materials business with selling products include steel, cement, asphalt, polyethylene, and river sand. Benefiting from enriching sales products and sales channels, the Company's sales of construction materials revenue increased from RMB200.8 million in 2022 to RMB526.8 million in 2024H1, providing supplemental income to the Company. However, the profitability of this business is low with an average gross profit margin of below 2%. The customers are mainly state-owned enterprises that have lesser payment risks, with settlement period of one to three months.

GJHI also engages in other commercial activities such as property leasing, waste material disposal, urban appearance and environmental protection business, catering and accommodation services. However, these commercial activities only make small contribution to the Company's the income and profit.

Good track record of receiving government support

GJHI has a good track record of receiving support from local government in the form of financial subsidies and capital injection. From 2021 to 2024H1, GJHI received subsidies of RMB998 million and capital injection of RMB3.7 billion from the local government. Considering GJHI's important position in the development of Zhanggong District and its tight relationship with the local government, we expect that the local government will continue to support GJHI over the next 12 to 18 months.

Increasing debt level with relatively high short-term debt repayment pressure

With ongoing funding for the infrastructure construction projects and their long settlement period, the Company's total debt increased from RMB10.6 billion at end-2022 to RMB11.9 billion at mid-2024, with total capitalization ratio of 42.2%. Its debt structure has slightly improved with short-term debt accounting for 35% of total debt at mid-2024, compared with 40.5% at end-2022, but still with relatively high short-term debt repayment pressure as the cash to short-term debt ratio decreased to 0.3x from 0.4x as of the same date. With large pipeline of construction projects under construction or planning, the Company will continue to rely on external financing to meet its future capital needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months.

GJHI has relatively low exposure to external guarantees. As of 30 June 2024, GJHI's external guarantees amounted to RMB1.2 billion, accounting for 7.6% of its net assets. The external guarantees are provided to the local state-owned enterprises in Zhanggong District and a joint-stock property development company. We believe the Company's contingent liability risk is manageable.

Weak asset liquidity

GJHI's asset liquidity is weak, which may undermine its financial flexibility. The Company's account receivables, other receivables and inventories accounted for around 82.7% of total assets, all with low liquidity. The inventories are mainly land assets and development costs from agent construction projects and property development projects, and the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises.

Multiple access to fundings with relatively high reliance on non-standard financing

GJHI has access to various sources of fundings, including bank loans, onshore bond financing and non-standard financing. As of 30 June 2024, about 57.7% of the Company's debt financing was the loans provided by domestic banks. The Company's total credit facilities were RMB12.3 billion, of which the unutilized portion was RMB3.1 billion. GJHI also has good access to onshore bond market and have issued onshore bonds through GZCI. From 2021 to 2024H1, the Company has raised RMB2.1 billion through issuance of MTN and private placement corporate bonds. However, GJHI has relatively high reliance on non-standard financing, which accounted for about 19.3% of total debt at mid-2024, with a relatively high average financing cost of around 7%. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities, and issuing offshore bonds to fulfill its future capital expenditure.

ESG Considerations

GJHI bears environmental risks through its agent construction projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

GJHI involved in real estate construction such as commercial properties in Zhanggong District. The Company is also exposed to social risks as a its role of public services provider. Demographic changes, public awareness and social priorities shape government's target for GJHI, or affect the government's propensity to support the Company.

GJHI'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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