

Credit Opinion

17 December 2024

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

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Nanchang Jinkai Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Nanchang Jinkai Group Co., Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Summary

The BBB_g- long-term credit rating of Nanchang Jinkai Group Co., Ltd. ("NCJK" or the "Company") reflects the local government's (1) strong capacity to provide support, based on our assessment of Nanchang Economic and Technological Development Zone ("Nanchang ETDZ"); and (2) very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Nanchang ETDZ's status as the national-level ETDZ in Nanchang City, with increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) important role in the development of Nanchang ETDZ with sufficient public policy project reserves; (2) good track record of receiving recurring government payments; and (3) good access to funding.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increased debt burden and high short-term debt repayment pressure; and (3) moderate asset liquidity.

The stable outlook on NCJK's rating reflects our expectation that the local government's capacity to provide support will remain stable and that the Company will maintain a high strategic importance in the development of Nanchang ETDZ.

Rating Drivers

- Important role in the development of Nanchang ETDZ with sufficient public policy project reserves
- Good track record of receiving recurring government payments
- Medium exposure to commercial activities
- Increased debt burden and high short-term debt repayment pressure
- Moderate asset liquidity
- Good access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as reduced exposure to risky commercial activities, and improved debt management and asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the 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 reduced strategic significance, decrease in government payments; or increase in exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	36.0	42.1	47.1	51.8
Total Equity (RMB billion)	13.5	16.3	17.3	18.1
Total Revenue (RMB billion)	2.6	3.0	3.4	2.3
Total Debt/Total Capital (%)	59.0	58.1	58.9	60.1

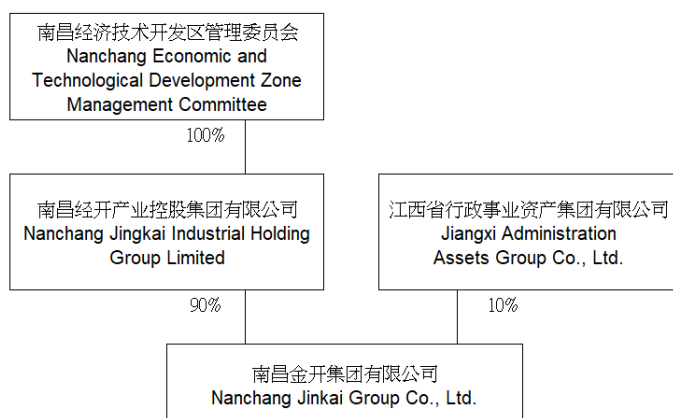
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

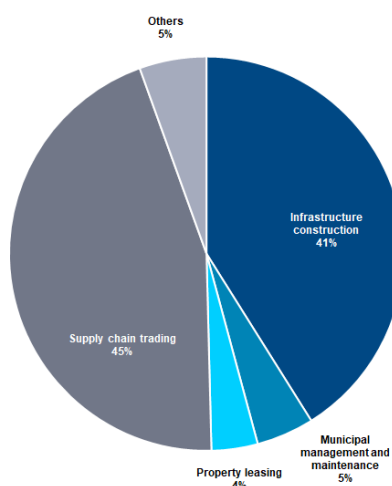
Founded in September 2015, NCJK is a key local infrastructure investment and financing company ("LIIFC") in Nanchang ETDZ, focusing on infrastructure construction and social housing construction. The Company plays a strategic role in the social, economic, and urban development of the region in accordance with the development blueprints of the local government, aiming to facilitate investment in and development of Nanchang ETDZ. It is also engaged in commercial activities such as supply chain trading, property leasing, and property development. In November 2023, the Management Committee of Nanchang ETDZ transferred 90% of the Company's equity to Nanchang Jingkai Industrial Holding Group Limited ("NJIH"). As of 30 September 2024, NJIH held 90% of the Company's shares, and the Management Committee of Nanchang ETDZ was the ultimate controller of the Company.

Exhibit 1. Shareholding and organization chart as of 30 September 2024



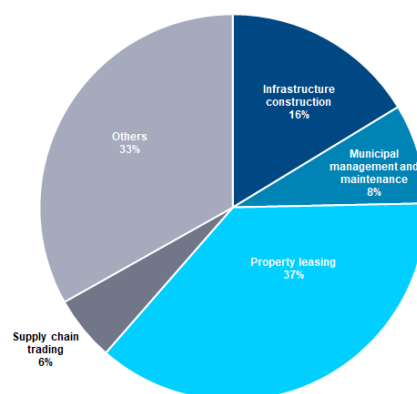
Source: Company information, CCXAP research

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 the local government of Nanchang ETDZ has a relatively strong capacity to provide support for the Company, given its status as the national-level ETDZ in Nanchang City, with ongoing economic growth and moderate fiscal metrics.

Nanchang City is a prefecture-level city located in the north of Jiangxi Province and the capital of Jiangxi Province. Nanchang City develops strategic emerging pillar industries such as automobiles and new energy vehicles, electronic information, biomedicine, and aviation equipment. It also develops advantageous industries such as green food, modern textiles, new materials, and electromechanical equipment manufacturing. In 2023, the GRP of Nanchang City increased by 4.0% year-on-year ("YoY"). However, it maintained a modest fiscal balance, with 54.0% coverage of general budgetary revenue to general budgetary expenses in 2023. As of 31 December 2023, Nanchang City reported a government debt of RMB167.9 billion. In the first nine months of 2024, Nanchang City recorded a GRP of RMB539.9 billion, with a YoY growth of 4.6%.

Exhibit 4. Key economic and fiscal indicators of Nanchang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	665.1	720.4	-
GRP Growth (%)	8.7	4.1	4.0
General Budgetary Revenue (RMB billion)	48.5	45.8	50.0
General Budgetary Expenditure (RMB billion)	87.0	93.9	92.6
Local Government Debt (RMB billion)	137.6	148.2	167.9

Source: Statistic Bureau of Nanchang City, CCXAP research

Nanchang ETDZ was established in 1992 and was approved as a national-level Economic and Technological Development Zone in 2000. It has formed five industrial pillars of electronic information, new energy automobile and parts, biomedicine, smart equipment manufacturing, and aviation. The local government's general budgetary revenue slightly increased from RMB1.9 billion in 2022 to RMB2.2 billion in 2023. Nanchang ETDZ has a moderate fiscal balance. In 2023, its general budgetary revenue to general budgetary expenditure ratio was 64.6%. As of end-2023, the government debt balance of Nanchang ETDZ decreased to RMB7.8 billion. In the first nine months of 2024, Nanchang ETDZ recorded a GRP of RMB57.2 billion, with a YoY growth of 5.0%.

Exhibit 5. Key economic and fiscal indicators of Nanchang ETDZ

	2021FY	2022FY	2023FY
GRP (RMB billion)	72.1	78.1	-
GRP Growth (%)	8.4	4.7	-
General Budgetary Revenue (RMB billion)	2.1	1.9	2.2
General Budgetary Expenditure (RMB billion)	3.9	3.5	3.3
Local Government Debt (RMB billion)	9.3	9.9	7.8

Source: Management Committee of Nanchang ETDZ, CCXAP research

Government's Willingness to Provide Support**Important role in the development of Nanchang ETDZ with sufficient public policy project reserves**

NJIH is the largest LIIFC in Nanchang ETDZ, providing comprehensive services in Nanchang ETDZ, such as urban construction, industrial park operation, financial services, and investment attraction. As the largest subsidiary of NJIH, NCJK has played an important role in undertaking public policy projects entrusted by the local government, including infrastructure construction, social housing construction, as well as municipal management and maintenance. It has made significant contributions to the municipal development and continuous urbanization of Nanchang ETDZ. In addition, the Company has sufficient public policy project reserves, indicating high business sustainability. We believe that with its strong policy mandate, the Company will undertake most of the public projects in Nanchang ETDZ, and will not be replaced by other state-owned enterprises in the foreseeable future.

NCJK carries out the key urban construction projects, which are broadly divided into infrastructure construction and social housing construction (including resettlement housing and affordable housing). NCJK continues to conduct urban construction business on agent construction basis. As of 30 September 2024, NCJK had 15 infrastructure projects and 2 social housing projects under construction or planning, with total estimated investment of RMB4.1 billion and uninvested amount of RMB1.9 billion. The relatively large number of projects in the pipeline can ensure the sustainability of the business, but exert relatively high capital expenditure pressure on the Company.

In addition, NCJK conducts municipal management and maintenance business, such as sanitation and greening, with strong policy orientation. In recent years, this policy-driven business has achieved stable growth in business scale through the accumulation of projects, indicating that its policy function and importance in the management and maintenance of municipal facilities has continued to increase.

Medium exposure to commercial activities

NCJK is involved in commercial activities such as property leasing and management, property development, and supply chain trading. We estimate the Company's risk exposure to commercial activities to be medium, as the majority of these commercial activities are related to the strategic development of the region.

NCJK is engaged in the property leasing and management business in Nanchang ETDZ, including leasing of industrial parks and factories, office buildings, and residential properties. Most of the properties are obtained through self-construction and government allocation. As of 30 September 2024, the Company had a total leasable area of 2.1 million square meters, with occupancy rate of about 71.8%. The property leasing and management business provides a stable income and good profit to the Company. In 2023, this business achieved revenue of RMB128 million, with a high gross profit margin of 65.1%. However, income from this business is subject to uncertainty as the lease progress is highly correlated to the local operating environment and development prospects. In addition, as of 30 September 2024, the Company had 3 key leasable property projects under construction, with a total estimated investment of RMB4.6 billion and an uninvested amount of RMB2.5 billion, further increasing the Company's capital pressure. We expect the revenue generated from property leasing and management business will further increase after the completion of property projects construction.

Moreover, NCJK continues to expand its supply chain trading business, with main products being building materials and electronic equipment. In 2023, the revenue of the supply chain trading business reached RMB1.5 billion, with a YoY growth rate of 59.2%. The primary target customers are the construction companies participating in NCJK's urban construction projects. However, the Company's high reliance on its top 5 suppliers and customers may cause uncertainties in this business. As of 30 September 2024, the top 5 suppliers and customers accounted for 70.3% and 80.2% of the total procurement and total sales, respectively. On top of that, although the supply chain trading business is the largest contributor to the Company's total revenue, its profitability is relatively low. In 2023, the revenue of supply chain trading business accounting for 44.9% of the total revenue, but the gross profit margin was as low as 0.8%.

Furthermore, NCJK has started property development since 2022, with two residential projects under construction. As of 30 March 2024, the total investment was expected to be approximately RMB1.4 billion, with uninvested amount of RMB1.3 billion. During the sluggish period in China's property market, the future balance of funds in property development may suffer higher volatility due to the progress of project construction and sales. We believe that the increasing investment in property-related commercial activities will bring higher business and financial risks to the Company.

Good track record of receiving recurring government payments

The Company has a good track record of receiving support from the local government in terms of subsidies, special funds, assets, and capital injections. The size and record of these government payments suggest a propensity for the government to support NCJK. In 2023, the Company transferred out subsidiaries and assets, decreasing its capital reserve by RMB1.1 billion. In return, the Company received asset injection, government funds and government special funds, with total amount of RMB1.2 billion. From 2023 to 2024Q3, the Company

had received government subsidies and tax refunds of approximately RMB425.2 million in total to support its operations. Given the strategic role of NCJK in Nanchang ETDZ, we believe that the Company will continue to receive financial support from the local government.

Increased debt burden and high short-term debt repayment pressure

NCJK's total debt continues to grow due to ongoing financing for the construction projects. The Company's total debt increased from RMB24.9 billion at end-2023 to RMB27.3 billion as of 30 September 2024, while its total capitalization ratio maintained at a relatively high level, slightly increasing from 58.9% to 60.1% over the same period. In addition, the Company has high short-term debt repayment pressure as reflected by its relatively large short-term debts. As of 30 September 2024, the Company's short-term debt accounted for 46.5% of the total debt, indicating that its debt structure needs to be improved. Given the large capital needs from construction projects, we expect the debt leverage of the Company to remain at a relatively high level in the next 12 to 18 months.

Moderate asset quality

NCJK's asset quality is moderate, which may undermine its financing flexibility. The Company's total assets mainly consist of less liquid assets such as total receivables (mainly unreceived project payments from the local government), inventories (mainly costs from urban construction projects), and investment properties (leased industrial parks and factories, office buildings, and residential properties), totaling 73.2% of the Company's total assets as of 30 September 2024. Nevertheless, the large number of leasable properties can provide the Company with stable rental income.

Good access to funding

NCJK has good access to funding from banks and bond market, with overall financing cost of about 5.5%. The Company has established long-term borrowing relationships with policy banks and major state-owned banks in China, including China Construction Bank Corporation, Agricultural Development Bank of China, and Industrial and Commercial Bank of China Limited. The Company has sufficient stand-by liquidity. As of 30 September 2024, the Company had obtained total credit facilities of RMB33.2 billion, with available amount of RMB11.7 billion. In terms of direct financing, the Company continues to have good access to onshore bond market and offshore bond market. In 2024, it had issued two tranches of offshore bonds with a total issuance amount of USD2.5 billion, with financing cost of 7% and 5.25%. From 2023 to October 2024, it had raised RMB2.3 billion from the onshore bond market, with coupon range from 3.0% to 6.0%. The Company's non-standard financing exposure is limited as it only accounted for less than 15% of total debts, including trusts and finance leases with financing costs of around 6.5%. Given the Company's important position for social and economic development in Nanchang ETDZ, we expect NCJK to maintain good access to domestic bank loans and bond markets.

ESG Considerations

The Company is exposed to environmental risks as it undertakes construction tasks for infrastructure, social housing, industrial parks, and factories. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the start of the projects, and close monitoring during the construction phase. NCJK's key operations are in material compliance with currently applicable national and local environmental, health and safety laws and regulations.

In terms of social awareness, the Company has played a crucial role in the social welfare of Nanchang ETDZ by undertaking social housing and municipal road construction projects. Demographic changes, public

awareness, and social priorities shape government's development strategy and will affect the government's propensity to support the Company.

NCJK's governance considerations are also material as the Company is subject to oversight by the Nanchang ETDZ 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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