

## **CCXAP upgrades Zhenjiang Transportation Industry Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 19 July, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Zhenjiang Transportation Industry Group Co., Ltd. (“ZJTI” or the “Company”) to BBB<sub>g</sub>+ from BBB<sub>g</sub>, 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<sub>g</sub>+ long-term credit rating of ZJTI reflects (1) Zhenjiang Municipal Government’s very strong capacity to provide support; and (2) the local government’s 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 the Company’s (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.

### **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.

### **Rating Rationale**

#### **Credit Strengths**

**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.

**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. 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.

**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. With the favorable refinancing conditions, the Company financing costs continue to decline. 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.

#### Credit Challenges

**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.

**High debt leverage with large short-term debt.** 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 still has high short-term debt servicing pressure. 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.

**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.

## Rating Outlook

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.

### 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.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

## Regulatory Disclosures

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