中誠信亞太 CCXAP

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiangsu Hongye Holding Group Co., Ltd., with stable outlook.

Hong Kong, 9 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of BBB_g- to Jiangsu Hongye Holding Group Co., Ltd. ("JSHY" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of JSHY reflects the local government's relatively strong capacity to provide support, and the local government's extremely 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 the Suqian Economic Technology Development Zone's ("Suqian ETDZ") important role in industrial development as a national-level ETDZ in Suqian City, combined with fast economic growth and good emerging industries foundations. However, it has a relatively small economic scale in Suqian City.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) position as a comprehensive service operator for industrial investment and development in Suqian ETDZ; and (2) track of receiving government support. However, the rating is constrained by the Company's (1) medium exposure to commercial activities, with large investment needs in industrial construction and uncertainty in project returns; and (2) moderate financing channels.

Corporate Profile

Established in 2013, JSHY is one of the three important local state-owned enterprises in Suqian ETDZ, Suqian City, and is positioned as a comprehensive service operator for industrial investment and development in Suqian ETDZ. In October 2023, JSHY experienced an ownership structure change promoted by the Management Committee of Suqian ETDZ. The shares of the Company were transferred to the Management Committee of Suqian ETDZ; and its former parent, Suqian Economic Development Industry Investment Group Co., Ltd. ("SQII"), became a wholly-owned subsidiary of the Company. SQII has been mainly responsible for industrial estate development in the ETDZ since then. JSHY has four business segments which include industrial estate, industrial park supporting services, industrial supporting facilities and industrial investment, respectively. As of 30 September 2023, the Management Committee of Suqian ETDZ fully and directly owned the Company.

In June 2023, the Management Committee of Suqian ETDZ issued the equity transfer documents to agree to transfer 51% of the stakes of the three companies holding industrial resources. Those stakes were obtained through a capital increase and share expansion, which was completed before 30 September 2023, but the official alteration of registration will be completed in June 2024. Based on the government document, the Company already had actual control over these three companies.

Rating Rationale

Credit Strengths

Position as a comprehensive service operator for industrial investment and development in Suqian ETDZ. JSHY is positioned as a comprehensive service operator for industrial investment and development in Suqian ETDZ. JSHY focuses on the construction and operation of industrial estate, building and supporting facilities in Suqian ETDZ according to the planning of the Management Committee of Suqian ETDZ, which is conducive to the investment promotion and industrial development of Suqian ETDZ.

Track record of receiving government support. JSHY has a track record in receiving government support mainly in terms of capital injection and equity transfer. In June 2023, the Management Committee of Suqian ETDZ issued an equity transfer document to transfer the equity of three companies holding industrial resources to the Company. Based on the government document, the Company already had actual control over these three companies, but the official alteration of registration will be completed in June 2024.

Credit Challenges

Medium risk exposure to commercial activities. JSHY is exposed to business risk from its commercial activities which are mainly industrial park construction and operation and human resource services. Based on our assessment, such businesses contribute to around 30% of the Company's total assets. We consider the risk exposure to commercial activities is considered as medium reflecting the Company's prudent measures in engaging and managing such businesses.

Increasing debt level financing for construction projects. JSHY has shown a rising debt level for the past 24 months with the progress of construction projects. JSHY's debt structure is reasonable as short-term debt accounted for approximately 7.5% of the total debt. Considering the ongoing investment of the Company, we expect that it still needs to rely on external financings to meet its capital expenditure needs and the debt will continue to increase in the next 12-18 months.

Moderate access to funding channels. JSHY has moderate access to funding and relies highly on indirect financing and secured debt with a limited track record in accessing the domestic debt market at present. Nevertheless, the Company's good relationship with large domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk.

Rating Outlook

The stable outlook on JSHY's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important position in Suqian ETDZ over the next 12-18 months.

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 the local government's willingness to provide support, such as a decrease in commercial activities exposure and diversified financing channels.

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 less reliability on government support like the progress of in major asset transfers fell short of expectations, materially increased exposure to commercial activities or a deterioration in its debt management.

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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