CCXAP assigns first-time long-term credit rating of A_g- to Fujian Jinjiang Construction Investment Holding Group Co., Ltd., with stable outlook.

Hong Kong, 20 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time long-term credit rating of A_g- to Fujian Jinjiang Construction Investment Holding Group Co., Ltd. ("FJCI" or the "Company"), with stable outlook.

The A_g- long-term credit rating of Fujian Jinjiang Construction Investment Holding Group Co., Ltd. ("FJCI" or the "Company") reflects Jinjiang City Government's (1) very strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Jinjiang City Government's capacity to provide support reflects the Jinjiang City's strong comprehensive strength, ranked 8th by comprehensive strength among the top 100 counties (including county-level cities) in China, with ongoing growth in economic and fiscal strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant strategic role as the largest state-owned enterprise in Jinjiang City; (2) high sustainability of public policy projects; and (3) good track record of receiving government support. However, the rating is constrained by the Company's (1) relatively high debt leverage; (2) moderate asset liquidity; and (3) relatively high reliance on non-standard financing.

Corporate Profile

Founded in 2018, after the consolidation of other state-owned enterprises in Jinjiang City, FJCI has become the largest local infrastructure investment and financing companies ("LIIFCs") by total asset in Jinjiang City. The Company is the most important infrastructure construction and urban operation services entity in Jinjiang City. It primarily engages in infrastructure construction, public transport operation, land development and consolidation, and affordable housing construction. The Company also engages in commercial business such as property development, material trading, security services, and property leasing. As of the end of June 2023, the Company was wholly owned and ultimately controlled by Jinjiang State-owned Assets Operation and Guarantee Center.

Rating Rationale

Credit Strengths

Dominant strategic role as the largest state-owned enterprise in Jinjiang City. In 2022, after the consolidation of several local state-owned enterprises, such as Fujian Jinjiang Urban Construction Investment Development Group Co. Ltd. ("FJUC") and Jinjiang Public Transport Co., Ltd., the Company has significantly enhanced its capital strength and broadened its business scope. It is the largest LIIFC in Jinjiang City with dominant position in various public policy projects, including infrastructure construction, affordable housing construction, and land consolidation. Considering its strategic significance to the development of Jinjiang City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

High sustainability for public policy projects. Positioned as an urban construction and operation service provider, FJCI's public activities mainly include infrastructure construction, affordable housing construction, land consolidation, and public transportation service. The business scope of the public projects covers the whole Jinjiang City (except Jinjiang ETDZ). The Company has considerable projects in the pipeline, which can ensure the sustainability of the business, but exert large capital expenditure pressure.

Good track record of receiving government support. FJCI has a track record of receiving payments from the Jinjiang City Government. These payments take various forms, such as government subsidies, government special funds, asset transfer, cash injection, and equity transfers. Overall, given its important position and contribution to regional economic development, we believe that FJCI will receive ongoing government support to support its business operations.

Credit Challenges

Relatively high debt leverage. Due to the expansion of the construction projects, FJCI demonstrated a fast debt growth over the past three years. The Company's total debt increased from RMB49.0 billion at end-2020 to RMB72.7 billion as of 30 September 2023, with relatively high total capitalization ratio of 60.8%. We expect that, given its large future capital needs, the Company's debt burden will continue to grow in the next 12 to 18 months.

Moderate asset liquidity. FJCI has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories and contract assets, which accounted for 81.7% of its total asset as of 30 September 2023. Inventories and contract assets are mainly construction costs for its public projects, which are considered low liquidity.

Relatively high reliance on non-standard financing. Around 25.3% of the Company's debt was provided by bank loans. The Company has a track record of fund-raising activities in both offshore and onshore debt capital market. However, the Company has a relatively high exposure to non-standard financing, such as financial leasing, and trustee financing. As of 30 September 2023, non-standard financing accounted for 30.0% of its total debt.

Rating Outlook

The stable outlook on FJCI's rating reflects our expectation that Jinjiang City Government's capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Jinjiang City over the next 12 to 18 months.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Jinjiang City 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 decrease in market position, or material decrease in government payments.

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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