

CCXAP assigns first time long-term credit rating of BBB_g- to Jiaxian State-owned Capital Operation Group Co., Ltd., with stable outlook.

Hong Kong, 27 February, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Jiaxian State-owned Capital Operation Group Co., Ltd. (“JXSC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of JXSC reflects Jia County Government’s relatively strong capacity and 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 status of Jia County’s increasing economic strength, but constrained by its relatively weak fiscal balance.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) significant role in local infrastructure construction and primary land development; and (2) solid track record of receiving government supports. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) tight liquidity profile with insufficient bank credit facilities; and (3) medium exposure to contingent liability risk, with a high recovery risk from receivables.

Corporate Profile

Established in 2015, JXSC is one of the three most important infrastructure investment and financing companies (“LIIFCs”) in Jia County after the consolidation of local state-owned entities. In 2022, the local government transferred 100% of its shareholding in Jiaxian Development Investment Group Co., Ltd. (“JXDI”) to JXSC. JXDI is one of the major LIIFCs in Jia County, with total assets of RMB13.4 billion as of end-2022. The Company then became the largest LIIFC in terms of total assets in Jia County, mainly responsible for infrastructure construction and primary land development in Jia County. JXSC also engages in commercial activities, such as self-owned projects construction and operation, sand and gravel sales, and leasing. As of 18 January 2024, the Company was wholly owned by the State-owned Assets Service Center of Jia County, and the Jia County Government was the ultimate controller of JXSC.

Rating Rationale

Credit Strengths

Significant role in local infrastructure construction and primary land development. As one of the three most important LIIFCs in Jia County, JXSC has a significant role in local infrastructure construction and primary land development. The Company mainly undertakes infrastructure construction through agency construction model and self-construction model. JXSC also conducts primary land development through its subsidiary. Overall, JXSC’s land consolidation and infrastructure construction projects are essential to both the local residents and the development blueprint of the local government.

Solid track record of receiving government support. JXSC has a solid track record of receiving support from the local government in the form of capital injection, asset injections, and financial subsidies to support its investments and the operation of its businesses. Considering its significant role in local infrastructure construction and primary land development of Jia County, we expect the local government will continuous to provide support to the Company.

Credit Challenges

Medium exposure to commercial activities. JXSC participates in commercial activities such as self-owned projects construction and operation, sand and gravel sales, and leasing. We consider that the JXSC's exposure to commercial activities is medium, as they accounted for around 25%-30% of its total assets in our estimation.

Tight liquidity profile with insufficient bank credit facilities. JXSC has a fair access to funding channels such as bank loans and onshore bonds. Bank loans contribute the majority of total debt. Bank loans are mainly provided by Agricultural Development Bank of China and regional banks in Henan Province. The Company also has a track record for fund-raising activities in capital market. We expect the Company to expand its financing channels to fulfil its future capital expenditure needs for infrastructure projects.

Medium exposure to contingent liability risk, with a high recovery risk from receivables. The Company bears medium exposure to contingent liability risk, which could potentially increase its repayment obligations. The Company provided external guarantees to some private-owned enterprises, although most of these guarantees were provided to local state-owned enterprises. Some of the guarantees are listed as judgement debtors for multiple times, while some of the guarantees had interest arrears and overdue payments. In addition, there is a risk of recovery for its receivable accounts.

Rating Outlook

The stable outlook on JXSC's rating reflects our expectation that the Jia County Government's capacity to provide support will be stable, and the Company's significant role in local infrastructure construction and primary land development of Jia County will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Jia County 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 improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Jia County Government's capacity to 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 regional significance or materially increased exposure to risky commercial activities or deteriorated 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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