

CCXAP affirms Jiangsu Haihong Investment Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 22 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Jiangsu Haihong Investment Holding Group Co., Ltd. (“JHIH” or the “Company”) at BBB_g, with stable outlook.

The BBB_g long-term credit rating of JHIH reflects the Haimen District Government’s strong capacity to provide support and its 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 Haimen District’s status as the third largest district by gross regional product (“GRP”) in Nantong City for years. It has sound economic fundamentals and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the core entity in the construction and operation of affordable housing in Haimen District; (2) solid track record of receiving government support; (3) possession of high-quality leasable assets; and (4) good access to diversified funding. However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities; (2) high debt leverage and growing debt levels driven by large amount of development pipelines; and (3) high level of external guarantees.

Corporate Profile

Founded in 2016, JHIH is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Haimen District, Nantong City, and occupies a dominant position in affordable housing and infrastructure construction. JHIH is also engaged in diversified commercial activities such as trading business, leasing business and property management services. As of 30 September 2023, the Company was controlled by the State-owned Assets Supervision and Administration Commission of Haimen District Government (“Haimen SASAC”), which directly held 80% of the Company’s share and indirectly held 20% of the share through Jiangsu Hairun City Development Group Co., Ltd. (“JHCD”). The Company’s paid-in capital was RMB3.0 billion as of the same date.

Rating Rationale

Credit Strengths

Clear and strong strategic position in Haimen District. JHIH is positioned as the core entity responsible for affordable housing construction in Haimen District. JHIH has also undertaken some infrastructure construction projects in Haimen District, including roads, bridges, and sewage pipeline constructions in Linjiang New Area and Dieshiqiao Textile Area. JHIH has a clear functional positioning among state-owned enterprises in Haimen District that remained unchanged during 2023. We believe that JHIH’s strategic role in Haimen District’s economic development and public welfare undertakings is irreplaceable in the short-to-medium term.

Dominant position in local affordable housing and infrastructure construction and operations. JHIH has undertaken a number of affordable housing projects over the past years. In addition, JHIH's infrastructure construction projects are mainly undertaken by its subsidiaries. We believe the Company's large pipelines of affordable housing and infrastructure construction projects will ensure the sustainability of JHIH's future revenue.

Solid track record of receiving government support. JHIH has received ongoing support from the Haimen District Government including capital injections, project payments and financial subsidies. Given the Company's strategic importance in the Haimen District, we believe that the Haimen District Government will provide JHIH with ongoing operational and financial support.

Good access to diversified funding. JHIH's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. The Company's financing channels mainly include bank loans and direct financing, along with a small scale of non-standard financing products. The debt pressure in Haimen District is generally controllable, which provides good financing environment for LIIFCs in Haimen District

Credit Challenges

Medium risk exposure to commercial activities. Apart from public services, JHIH is engaged in diversified commercial activities including trading business, property leasing and property management. Under business transformation, the Company also plans to develop the fund investment business. While commercial activities generate supplemental income, they may also pose higher operational and business risks than its affordable housing and infrastructure construction businesses. The Company's exposure to commercial businesses is considered medium, which accounted for 25%-30% of its total assets, based on our estimates.

High debt leverage and growing debt levels driven by large development pipelines. JHIH has a high debt leverage owing to its debt-driven business expansion over the past few years. Affected by the continuous investment in affordable housing projects, the Company's total debt has maintained an increasing trend. We expect that the Company may maintain reliance on external financing for the development of these projects so that its debt leverage will remain at a relatively high level in the next 12 to 18 months.

High level of external guarantees. JHIH's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. Most external debt guarantees were provided to local state-owned companies, and we believe the risks from providing guarantees to local state-owned companies are manageable. However, approximately RMB692.8 million of external guarantees were provided to five real estate companies.

Rating Outlook

The stable outlook on JHH's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Haimen District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management or reduction in exposure to external guarantees.

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 reduced regional significance or weakened access to funding.

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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