

CCXAP assigns first-time long-term credit rating of BBB_g- to Jingdezhen Hesheng Industrial Investment Development Co., Ltd., with stable outlook

Hong Kong, 19 June 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of BBB_g- to Jingdezhen Hesheng Industrial Investment Development Co., Ltd. ("Jingdezhen Hesheng"), with stable outlook.

The BBB_g- long-term credit rating of Jingdezhen Hesheng is underpinned by the Company's (1) investment portfolio in line with Jingdezhen City's development strategy; and (2) diversified sources of revenue. However, the rating is constrained by the Company's (1) weak asset liquidity and weak profitability from investments; (2) increasing debt burden with large debt maturities; and (3) moderate access to funding.

The rating also reflects a moderate likelihood of government support from the Jingdezhen Municipal Government and its parent company when needed, which is based on the Company's (1) ultimate control by the Jingdezhen Municipal Government; (2) significance in promoting the development of strategic emerging industries in Jingdezhen City; and (3) solid track record of receiving support from the local government and its parent company.

Corporate Profile

Established in 2009, formerly known as Jingdezhen Hesheng Optoelectronics Industrial Investment Development Co., Ltd, Jingdezhen Hesheng is positioned as an important industrial investment platform in Jingdezhen City, focusing on the investment in emerging industries such as aviation, new energy, and new materials. In addition, the Company is also involved in property leasing, real estate, and trading businesses. As of 31 December 2023, Jingdezhen Hesheng was 80% owned by Jingdezhen Investment Co., Ltd., ("Jingdezhen Investment"), which was Jingdezhen City's main industrial investment platform and wholly owned by Jingdezhen State-owned Assets Operation and Investment Holding Group Co., Ltd. ("JSAH"), while Management Committee of Jingdezhen High-tech Industrial Development Zone ("Jingdezhen HIDZ") held the remaining 20%. Its ultimate controlling shareholder is Jingdezhen State-owned Assets Supervision and Administration Commission ("Jingdezhen SASAC").

Rating Rationale

Credit Strengths

Investment portfolio in line with Jingdezhen City's development strategy. As an important industrial investment platform under the management of JSAH, Jingdezhen Hesheng is of great significance in promoting the development of strategic emerging industries in Jingdezhen City. The Company's investment portfolio is aligned with the government policies and economic development, mainly investing in emerging industries such as aviation, new energy, and new materials.

Diversified sources of revenue. The Company has diversified income from different business segments, including precision machinery inspection equipment and materials, property leasing,

real estate, and trading. We believe that the diversified business portfolio can diversify its business risks, but some of the businesses have exerted certain capital expenditure pressure to the Company.

Moderate likelihood of support from the Jingdezhen Municipal Government. Jingdezhen SASAC maintains a high degree of control over Jingdezhen Hesheng's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. Jingdezhen Hesheng receives solid support from the Jingdezhen Municipal Government and JSAH, given its strategic and economic importance in industrial investment in Jingdezhen City.

Credit Challenges

Weak asset liquidity and weak profitability from investments. The proportion of listed companies is relatively low and the proportion of single investment is relatively high, indicating weak asset liquidity and relatively high asset concentration. The Company's profitability is weak, mainly due to its low investment income, which weakens its ability to repay debts through its internal financial resources. In 2023, its investment income at holding company level amounted to as low as RMB223.9 thousand, insufficient to cover annual interest expenses of over RMB500 million.

Increasing debt burden with large debt maturities. Owing to the increasing capital demand for investment, Jingdezhen Hesheng's debt burden has increased in the past years. The Company's adjusted total debt increased from RMB10.1 billion at end-2021 to RMB15.1 billion at end-2023 at consolidated level, and increased from RMB7.8 billion at end-2021 to RMB9.0 billion at end-2023 at holding company level. In addition, the Company has relatively high short-term debt repayment pressure. As of 31 December 2023, the short-term debt amounted to around RMB3.7 billion at holding company level, representing 35.9% of its total debt, and the cash to short-term debt ratio was 0.2x at holding company level.

Moderate access to funding. The Company has access to debt capital markets. From January 2021 to March 2024, the Company raised RMB1.7 billion through the onshore debt market. Additionally, the Company also had raised RMB536.3 million through the offshore debt market from December 2023 to April 2024. However, the Company has moderate standby liquidity. As of 31 December 2023, the holding company had obtained total credit facilities of RMB9.0 billion from diversified domestic policy banks and commercial banks, with available amount of RMB1.4 billion.

Rating Outlook

The stable outlook on Jingdezhen Hesheng's rating reflects our expectation that the Company will continue to receive solid support from the Jingdezhen Municipal Government and its parent company. We also expect the Company to maintain a stable and prudent investment strategy over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Jingdezhen Municipal Government and its parent company increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's credit metrics improve, for example, a lower debt-to-investment income ratio and a higher cash-to-short-term debt ratio.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Jingdezhen Municipal Government and its parent company decreases; (2) the performance of the Company's investment portfolio deteriorates; or (3) the Company shows weakened access to funding and eroded liquidity profile.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Peter Chong

Assistant Director – Credit Ratings

+852-2860 7124



peter_chong@ccxap.com

Elle Hu

Executive Director – Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656