

## Credit Opinion

18 July 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+** to Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd., with stable outlook.

### Summary

The BBB<sub>g</sub>+

Our assessment of Jimo District Government's capacity to support reflects Jimo District's status as one of the top three largest districts by gross regional product ("GRP") in Qingdao City for years, with growing economic and fiscal strengths.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) key role in the infrastructure construction and provision of public utility services in Jimo District; (2) solid track record of receiving government support; and (3) good access to different financing channels with relatively low financing costs.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) increasing debt burden with large investment needs; and (3) relatively high contingent risk arising from external guarantees.

The stable outlook on JMTI's rating reflects our expectation that the Jimo District Government's capacity to provide support will be stable, and the Company's characteristics such as its essential role in infrastructure construction and provision of public utility services will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Key role in the infrastructure construction and provision of public utility services in Jimo District
- Solid track record of receiving government support
- Medium exposure to commercial activities
- Increasing debt burden with large investment needs
- Good access to different financing channels with relatively low financing costs
- Relatively high contingent risk arising from external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Jimo District 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 materially reduced exposure to risky commercial activities and improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Jimo District 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 weakened market position, deteriorated access to fundings, or material decreased government support.

## Key Indicators

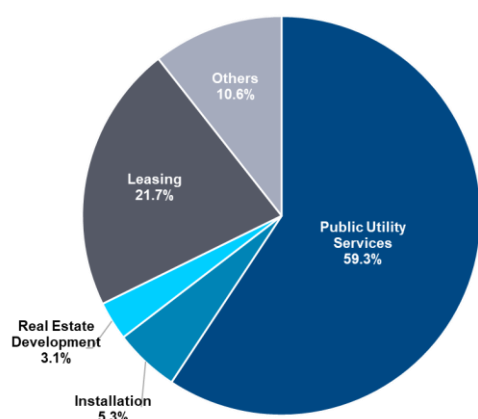
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	33.9	36.6	40.4	40.8
Total Equity (RMB billion)	17.7	17.7	17.9	17.8
Total Revenue (RMB billion)	0.8	0.8	0.8	0.3
Total Debt/Total Capital (%)	41.9	47.5	50.7	52.0

All ratios and figures are calculated using CCXAP's adjustments.

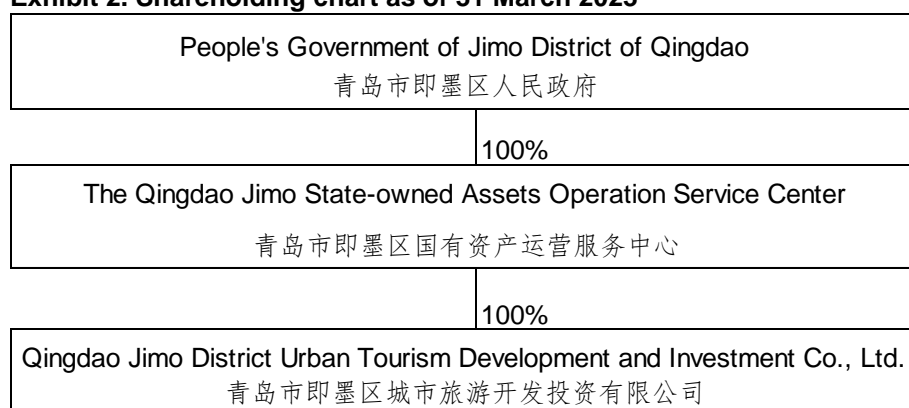
Source: CCXAP research

## Corporate Profile

Established in June 2007, JMTI is a key local infrastructure investment and financing company ("LIIFC") in Jimo District, Qingdao City, with a focus on the provision of public utility services and infrastructure construction. The Company is also engaged in commercial activities such as self-operated project construction, real estate development, as well as leasing. As of 31 March 2023, the Company has been wholly owned and controlled by the Qingdao Jimo State-owned Assets Operation Service Centre, which is under the direct administration of the Jimo District Government.

**Exhibit 1. Revenue structure in 2022**

Source: Company information, CCXAP research

**Exhibit 2. Shareholding chart as of 31 March 2023**

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Jimo District Government has strong capacity to provide support, reflects Jimo District's status as one of the top three largest districts by GRP in Qingdao City for years, with growing economic and fiscal strengths.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported GRP of RMB1,492.1 billion in 2022, ranking first in Shandong Province and 13<sup>th</sup> among China's municipalities. Qingdao City also has strong fiscal strength and manageable debt profile. In the past five years, its general budgetary revenue covered around 80% of its general budgetary expenditure and tax incomes accounted for around 70% of its general budgetary revenue. Its government's debt/GRP was as low as 20.6% as of 31 December 2022.

**Exhibit 3. Key economic and fiscal indicators of Qingdao City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,240.1	1,413.6	1,492.1
GRP Growth (%)	3.7	8.3	3.9

General Budgetary Revenue (RMB billion)	125.4	136.8	127.3
General Budgetary Expenditure (RMB billion)	158.5	170.7	169.6
Local Government Debt (RMB billion)	205.8	255.9	308.0

Source: Statistic Bureau of Qingdao City, CCXAP research

Jimo District is located in the southwest region of the Shandong peninsula, on the west coast of the Yellow Sea and the north of the Lao Mountain, with abundant supply of natural resources, such as land, sea and mineral resources. Jimo District comprises seven towns, one provincial-level economic development zone, one high-tech industrial development zone and one provincial-level tourism and resorts zone. It has formed six pillar industries, including traditional industries such as automobiles, textiles and clothing, as well as trade and logistic; emerging industries such as marine, new-generation information technology, as well as biomedicine.

Jimo District is a developing district and it has demonstrated fast economic growth over the past three years. It recorded GRP of RMB127.8 billion, RMB145.3 billion, and RMB151.3 billion in 2020, 2021, and 2022, with growth rates of 5.8%, 6.9%, and 2.6%, respectively. Jimo District's GRP ranked the third among all the districts or counties in Qingdao City for years. Also, Jimo District had a relatively strong fiscal balance as its general budgetary revenue covered on average if around 80% of its general budgetary expenditure. It also has good fiscal stability with tax income contributing around 70% of the general budgetary revenue over the past three years. As of 31 December 2022, the outstanding amount of local government debt amounted to RMB16.3 billion, increasing from RMB12.8 billion at end-2021 and accounting for 10.8% of its GRP.

#### **Exhibit 4. Key economic and fiscal indicators of Jimo District**

	2020FY	2021FY	2022FY
GRP (RMB billion)	127.8	145.3	151.3
GRP Growth (%)	5.8	6.9	2.6
General Budgetary Revenue (RMB billion)	11.2	11.6	10.0
General Budgetary Expenditure (RMB billion)	12.8	12.8	13.3
Local Government Debt (RMB billion)	11.8	12.8	16.3

Source: Statistic Bureau of Jimo District, CCXAP research

### **Government's Willingness to Provide Support**

#### **Key role in the infrastructure construction and provision of public utility services in Jimo District**

JMTI is the core LIIFC in Jimo District, primarily conducting infrastructure construction and providing utility services in Jimo District. The Company is usually designated by the local government to carry out the construction of infrastructure projects under the agent construction model. Since its establishment, the Company has played an essential role in the implementation of infrastructure construction and urban development policies. It has undertaken and completed number of development projects which are of strategic importance to Jimo District. The Company is mainly responsible for urban infrastructure projects such as municipal roads, pipelines, and water-related facilities. As of 31 March 2023, the Company had several infrastructure construction projects under construction with a total estimated investment amount of around RMB2.0 billion and an outstanding amount of RMB700 million.

JMTI is a very important entity in providing public services including provision of heat energy (in form of hot water and steam) and sales of electricity, as well as the construction and operation of heat supply networks. Its business scope covers most of the areas in Jimo District, with strong regional franchise advantage. For example, the Company's heating coverage reached over 10 million square meters, providing heat energy to over 100

enterprises and 100 residential communities with approximately 100,000 households in Jimo District. Moreover, JMTI takes part in the sale of electricity business by selling all the electricity generated from its cogeneration power plants to Qingdao Electric Power Company, accounting for 7.2% of the total electricity consumption in Jimo District. Due to the nature of public welfare businesses and increasing prices of raw materials especially coal prices, this sector has recorded net loss in previous years and the Company relies on continuous subsidies from the local government.

As of 31 March 2023, the Company had several constructing thermal power projects under its public utility services such as Eastern Auto City Area Central Heating Construction Project and Fengtaiyuan Thermal Power Infrastructure Project, with an estimated total investment of RMB1.1 billion and uninvested amount of RMB928.3 million. We expect the Company's heat and electricity supply capacity will be further expanded when these projects complete construction. We also believe JMTI's regional position in the public services will remain strong, given its strong functional positioning to promote the regional development and improve the living quality in Jimo District. Therefore, the potential substitution is low and government support is likely in the near future.

### **Solid track record of receiving government support**

JMTI has a solid track record of receiving government support mainly in equity transfer, capital injection, and operating subsidies. As one of the key LIIFCs in the area, Jimo District Government continuously increased the Company's capital base through equity transfer and operating asset injections over the past years. From 2020 to 2022, the local government freely transferred equities and injected assets to JMTI, increasing its capital reserve of approximately RMB176 million. Moreover, the Company received operating subsidies from local government amounted of RMB268.8 million, RMB498.5 million, and RMB760.2 million in 2020, 2021, and 2022, respectively. We believe that, considering the important position of JMTI and its close relationship with the local government, the local government will provide strong support to the Company in times of need, which will remain good over the next 12 to 18 months.

### **Medium exposure to commercial activities**

JMTI is also engaged in commercial activities such as self-operated project construction, leasing, and real estate development businesses. Although the Company's assets from commercial activities accounted for about 30% of its total assets, we consider the business risk in these commercial activities to be manageable.

At present, JMTI focuses on the construction of self-operated projects and gradually replaces the agent construction model, including projects of parking lot, Nvdao Port upgrading, Nvdao Port channel anchorage, cloud computing center, tourist scenic area, industrial park, port and shipping logistic park, waste incineration power station, as well as water resource operation facilities. The construction costs of such self-operated projects will be balanced by the operating income generated after the construction is completed. The Company has large construction projects and sufficient reserves. As of 31 March 2023, the Company had 8 projects under construction, with a total planned investment amount of approximately RMB3.4 billion and an outstanding amount of more than RMB1.0 billion.

JMTI's real estate development business primarily focuses on the development of resettlement housing and talent apartments, with the development of commercial housing as supplements. Under its business model, the developed projects are partially sold to resettled householders based on the resettlement compensation they received, and the remaining are covered by the selling of commercial parts at the market prices. As of 31 March 2023, the Company had 2 talent apartments and 1 resettlement housing under construction with an uninvested

amount of RMB5.0 billion and RMB548.7 million, respectively. Due to the volatility of China's real estate market, there is still some uncertainty about the sales and revenues of subsequent property development projects.

JMTI is also engaged in leasing business including the rental of commercial and residential properties, docks, and aquaculture farms. The Company owns several leasable assets that generate a stable income of RMB172 million every year. Among them, Eastern Breeding Pond is leased to Qingdao Shengtaicheng Development Co., Ltd. until 2022, accounting for the majority of the Company leasing income. However, the lease agreement has not yet been renewed with uncertainty in future corporation.

Given the large amount of construction of self-operating projects and property projects, we expect the Company will increase its commercial activities exposure in the future.

### **Increasing debt burden with large investment needs**

JMTI has had rapid debt growth over the past three years due to continuous investment in infrastructure construction and commercial activities. As of 31 March 2023, the Company's total debt increased to RMB19.2 billion from RMB12.7 billion at end-2020; while its capitalization ratio, calculated as a ratio of total debt to total capital, also grew to 52.0% from 41.9% at end-2020. At the same time, the Company had a large number of public and commercial projects under construction, we estimated that it still needed to invest about RMB8.0 billion in the following years. Considering the Company's relatively large capital expenditure pressure and the Company will still rely on external financing to support the construction of commercial projects, we expect the Company's debt burden will continue to grow for the next 12-18 months.

JMTI also shows moderate asset liquidity, which may undermine its financial flexibility. Inventories (cost of infrastructure construction projects and cost of development projects), other receivables, investment properties, and construction in progress represent a significant portion of the Company's total assets, all of which are relatively illiquid and subject to a high risk of impairment. These assets accounted for about 61% of total assets at end-2022.

### **Good access to different financing channels with relatively low financing costs**

JMTI demonstrates good access to different financing channels, of which bond issuances and bank loans are the majority of the funding resources. The Company has secured low-cost and stable funding and maintained a relatively balanced debt structure. For example, it keeps long-term relationships with several domestic banks, including policy banks, national joint-stock commercial banks, as well as large state-owned banks. As of 31 March 2023, the Company had total bank facilities of RMB18.4 billion, with the undrawn portion being RMB10.6 billion.

The Company is also an active issuer in the debt capital markets including onshore and offshore, as its debt mainly comes from direct bond issuances. It has issued different financial products in the domestic debt market such as SCPs, corporate bonds, MTNs, private placement notes, as well as offshore bonds. Among them, two tranches of USD bonds were issued in 2021 and 2022, with coupon rates of 2.9% and 4.5%, respectively. As of 31 March 2023, bonds accounted for approximately 66% of its total debt, followed by bank loans (around 25%), and non-standard financing products (less than 7%). Meanwhile, the Company's weighted average financing cost was at a relatively low level of less than 5%.

## Relatively high contingent risk arising from external guarantees

JMTI's credit profile is undermined by a relatively large number of external guarantees, which could potentially increase its repayment obligations. As of 31 March 2023, the total amount of external guarantees was approximately RMB5.2 billion, representing 29.3% of net assets. The targets of the guarantees are mainly for state-owned enterprises in Jimo District but none guarantees have counter-guarantee measures in place, which may exert certain contingent risks on JMTI.

## ESG Considerations

JMTI bears environmental risks through its infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

As a public services provider in Jimo District, the Company also faces social risks. Demographic changes, public awareness, and social priorities shape government's target for JMTI, or affect the government's propensity to support the Company.

JMTI's governance considerations are also material as the Company is subject to oversight by Jimo District Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## 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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