

## Credit Opinion

11 September 2023

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

### Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

[kelly\\_liang@ccxap.com](mailto:kelly_liang@ccxap.com)

Christy Liu +852-2860 7130

Credit Analyst

[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

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

### Client Services

Hong Kong +852-2860 7111

## Jiangsu Pingling Construction Investment Group Co., Ltd.

### Surveillance credit rating report

### CCXAP upgrades Jiangsu Pingling Construction Investment Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

CCXAP has upgraded the long-term credit rating of Jiangsu Pingling Construction Investment Group Co., Ltd. (“JPCI” or the “Company”) to BBB<sub>g</sub> from BBB<sub>g</sub><sup>-</sup>, reflecting the expanded position and increased importance of the Company after the consolidation, as well as the strengthened support from Liyang City Government.

The BBB<sub>g</sub> long-term credit rating of JPCI reflects (1) Liyang City Government’s strong capacity to provide support; and (2) the local government’s 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 Liyang City’s status as one of the Top 100 counties in China, with ongoing economic growth over the past few years.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the main entity for urban-rural integration development operations, financial services and equity investment in Liyang City; (2) function in infrastructure construction in Liyang City, especially in Lianghu Innovation Zone; and (3) good track record of receiving ongoing government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities such as equity investments and finance services; (2) high investment needs and financing channels concentrated on bank financing and nonstandard financing; and (3) medium level of contingent risk.

The stable outlook on JPCI’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important position in the development of Liyang City over the next 12 to 18 months.

## Rating Drivers

- High importance to the development of Liyang City
- Medium exposure to commercial activities
- Good track record of receiving government support
- High investment needs mainly financed by bank borrowing and nonstandard products
- Medium level of contingent risk

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the Liyang City 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 reduced exposure to commercial activities or improved regional importance.

### What could downgrade the rating?

The rating could be downgraded if (1) the Liyang City 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 policy significance or material deterioration in debt management.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	8.3	14.4	23.0	26.5
Total Equity (RMB billion)	3.8	7.3	10.9	10.9
Total Revenue (RMB billion)	0.1	0.1	0.6	0.02
Total Debt/Total Capital (%)	9.0	15.4	33.8	40.1

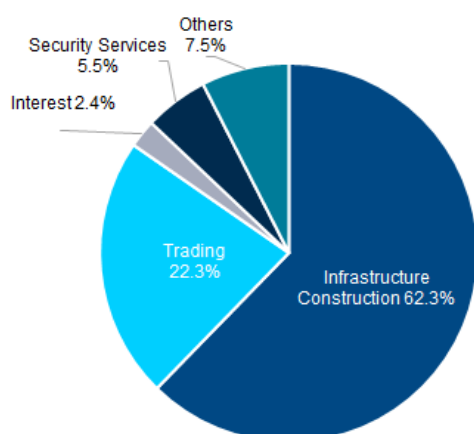
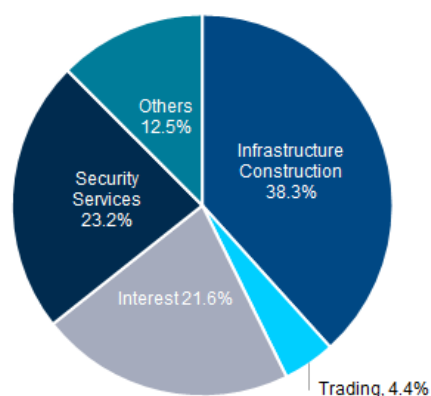
All ratios and figures are calculated using CCXAP's adjustments, and ratios and figures in 2021 are restated using 2022 audit report.

Source: Company information, CCXAP research

## Corporate Profile

Established in 2015, JPCI is one of the key local infrastructure investment and financing companies ("LIIFCs") in Liyang City. In November 2022, the local government consolidated its state-owned assets and transferred the holdings of some state-owned companies to JPCI. After the consolidation, the Company is positioned as the core entity for urban-rural integration development operations, financial services and equity investment business in Liyang City, and is responsible for infrastructure construction in the Liyang Area of Lianghu Innovation Zone. Its business scope enlarged to infrastructure and settlement housing construction.

JPCI also engages in different business segments to support local economic and industrial development, including equity investment, trading business, commercial services of security, and financial services such as micro-lending, financing guarantee and fund custody. As of 31 March 2023, Liyang City Government was the ultimate controller of JPCI with direct and whole holding of the Company.

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Liyang City Government has a strong capacity to provide support to the Company, given its status as one of the CCID Top 100 Counties in China, and its ongoing economic growth over the past few years.

Located in the southern part of Jiangsu Province, Changzhou City is part of the Suzhou-Changzhou-Wuxi city cluster, which is one of the most developed city clusters in China. The gross regional product ("GRP") of Changzhou City's ranked 5<sup>th</sup> in Jiangsu Province over the past five years, and reached RMB955.0 billion in 2022 with a year-on-year increase of 3.5%. Changzhou City reported general budgetary revenue of RMB63.2 billion while its general budgetary fiscal balance of 76.5% in 2022. We consider that Changzhou City has a relatively healthy fiscal profile, characterized by high contribution from tax incomes and relatively low debt leverage. Changzhou City's tax incomes accounted for over 75% of its general budgetary revenue over the past three years. As of 31 December 2022, Changzhou Municipal Government reported outstanding debt of RMB160.8 billion, equivalent to about 16.8% of its GRP.

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

	2020FY	2021FY	2022FY
GRP (RMB billion)	781.0	880.7	955.0
GRP Growth (%)	4.5	9.1	3.5
General Budgetary Revenue (RMB billion)	61.7	68.8	63.2
General Budgetary Expenditure (RMB billion)	72.8	77.2	82.6
Local Government Debt (RMB billion)	122.0	141.5	160.8

Source: Changzhou Municipal Government, CCXAP research

Liyang City is a county-level city in Changzhou City, located at the junction of Jiangsu Province, Zhejiang Province and Anhui Province. Liyang City is one of the Top 100 counties in China released by the CCID Consulting County Economic Research Center, and has developed several core industries, including machinery manufacturing industry, metallurgy industry, building materials manufacturing industry, and textile industry. From 2020 to 2022, Liyang City's economic strength improved steadily with GRP increasing from RMB108.6 billion to RMB141.6 billion. Liyang City Government's general budgetary revenue was recorded at RMB8.1

billion in 2022. Tax revenue is a stable contribution to the general budgetary revenue, accounting for over 80% over the past three years. The fiscal balance ratio kept at moderate level of over 60% over the past three years. Its outstanding government debt continuously increased to RMB36.0 billion at end-2022, accounting for about 25.4% of GRP.

#### **Exhibit 4. Key economic and fiscal indicators of Liyang City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	108.6	126.1	141.6
GRP Growth (%)	4.6	10.1	6.2
General Budgetary Revenue (RMB billion)	7.4	8.7	8.1
General Budgetary Expenditure (RMB billion)	11.6	11.0	12.8
Local Government Debt (RMB billion)	22.9	29.0	36.0

Source: Statistics Bureau of Liyang City, CCXAP research

Lianghu Innovation Zone is located between Ge Lake and Changdang Lake, with a total area of 1,485 square kilometers, covering 4 districts (counties) in Changzhou City. The Zone is aiming to develop core functions, such as research institutions, experimental research and development, corporate headquarters, and financial trade. Some listed companies and large enterprises have settled in the Lianghu Innovation Zone, including Li Auto Inc., CALB Group Co., Ltd. and SVOLT Energy Technology Company Ltd.

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

##### **Expanded function and increased importance in Liyang City**

The local government consolidated its state-owned assets in November 2022 and formed five main state-owned enterprises in Liyang City. After the consolidation, each of these five enterprises is responsible for infrastructure construction in different areas in Liyang City. JPCI and Liyang State-owned Assets Investment Holding Group Co., Ltd. are directly controlled and managed by Liyang City Government, and the other three are responsible for construction and operation in different functional zones in Liyang City. The Company's business scope has been enlarged after the consolidation, and is primarily responsible for promoting the development of local industries and conducting construction including infrastructure construction, resettlement housing, industrial parks in the Lianghu Innovation Zone. In addition, the Company's position in the financial business in Liyang City stays unchanged. The importance of the Company to the local government has increased.

##### **High importance to the development of Liyang City**

The Company undertakes infrastructure construction business mainly by signing construction agreements with Finance Bureau of Liyang City and carrying out the construction work accordingly. The local government would make payments to the Company based on the actual cost plus a markup in return upon completion. As of 31 March 2023, the Company had completed some projects, such as the construction of kindergarten and residential areas. At the same time, the Company also had some key projects under planning, with a total investment of RMB1.6 billion. Furthermore, JPCI is also responsible for healthcare infrastructure construction and environment upgrade projects whose initial funds are borne by the local government. As of 31 March 2023, the Company had such projects under planning with an investment of RMB 136 million.

JPCI is also responsible for resettlement housing construction in the northern area of Liyang City. The resettlement houses will be sold to resettlement households at government-regulated prices, and enjoys subsidies from the local government. The Company has completed 2 resettlement housing projects as of 31 March 2023, with a total investment of RMB151 million and a total sellable area of 62.8 thousand square meters.

As of 31 March 2023, the Company had 3 projects under construction, with a total investment of RMB1.1 billion and an outstanding amount of RMB972 million. Apart from that, the Company undertakes some roles on behalf of the local government, such as fund management of real estate regulatory account and fund investment.

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

JPCI diversified into other business segments such as equity investment, financial services, self-operated construction, and trading. The Company's exposure to commercial activities accounted for less than 30% of its total assets. The Company's main exposure to commercial activities is investment risk arising from equity investment business. As the equity investments were at the initial stage of investment, the returns on investment have not been fully reflected. The Company is also exposed to certain credit contagion risks from financial services, particularly from legacy guarantee businesses from the past. In addition, the Company also engages in photovoltaic and charging facilities businesses mandated by the local government, and is currently at the early stages of investment, which may expose the Company to certain operational risks.

According to our assessment, the Company's risk exposure to commercial activities is considered medium. JPCI's equity investment business is aligned with its position to promote local industrial development in Liyang City. The source of funding for equity fund mainly comes from the local government. Moreover, the exposure arising from financial services is shrinking as the Company's risk control and business model gradually improved.

JPCI is entrusted by the government to conduct industrial investments and financial service operations in Liyang City, with a high strategic policy role in local industrial support and upgrade. The Company conducts equity investment through equity funds and direct investment, and focuses on the four major industries of Liyang City, namely advanced manufacturing, high-end leisure, modern health, and new intelligence. Underpinned by the industrial development of Liyang City, the scale of JPCI's investments continues to expand. JPCI has invested in 11 investment funds and invested directly in 20 companies as of end-2022. The value of the Company's investment portfolio reached RMB4.2 billion as of end-2022, mainly combined with fund investments. The Company plans to exit its investments through IPO listing or project repurchases. However, most of JPCI's investments are at the initial investment stage which requires a long holding period, which may expose the Company to larger investment and execution risks.

JPCI has a certain credit contagion risk stemming from its financial guarantee, lending and on-lending businesses, which are mainly provided to small-to-medium enterprises in Liyang City. The guarantee business was continuously exposed to compensation risk mainly because of its guarantees that happened many years ago, driving the scale of outstanding value of receivable compensation to RMB163 million as of end-2022. In recent years, risk control gradually improved and its new guarantee products had the characteristic of risk sharing with government funds and banks. The amount of new loans issued by the Company has been decreasing in recent years. As of 31 March 2023, the Company's outstanding loan amount slightly decreased to RMB142 million. The non-performing loan was large with a total loan overdue amount of RMB95 million and a non-performing loan ratio of 66.9%. These overdue enterprises have provided properties as full collateral for the loan and the Company had initiated the judicial recovery procedures.

JPCI also had some self-operated construction projects apart from government-mandated construction projects, mainly including construction of industrial parks, photovoltaic facilities, and charging and swapping facilities, and is expected to balance the initial investment of the projects through rental and charging income. As of 31 March 2023, the Company had 3 projects under construction and 5 projects under planning, with a total investment of RMB5.5 billion and an outstanding amount of RMB5.2 billion.

The Company's trading business mainly involves silicon materials, which generated considerable amount of income to the Company but earned a small profit margin. The Company mainly adopts demand-on-purchase mode which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. The concentration risks from upstream suppliers and downstream customers are high, with the top 5 suppliers and customers accounting for over 80% of the total procurement and the total sales, respectively.

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

In recognition of the strategic importance of JPCI's businesses to the development of Liyang City, the Company has received comprehensive support from the local government, in terms of capital injections, asset injections, equity transfer and operating subsidies. The Company is clarified by the local government to undertake photovoltaic and charging facilities businesses and operate relevant assets in Liyang City. Liyang City Government established a special group to assist the recovery work of the its guarantee business. From 2020 to 2022, the Company has received a total capital injection of RMB5.6 billion in cash from the local government. Apart from that, the local government also transferred equity shares of some state-owned enterprises to the Company in 2022, substantially enlarging its business scope and capital strengths. The local government also provided continuous operating subsidies with total amount of more than RMB353.6 million from 2020 to 2022. We expect JPCI to receive ongoing government support given its position as one of the key state-owned enterprises in Liyang City.

### **High investment needs mainly financed by bank borrowing and nonstandard products**

In 2022, JPCI reported a fast debt growth mainly owing to its infrastructure construction and self-operated projects. As of 31 March 2023, the Company's total debt increased to RMB7.3 billion from RMB1.3 billion at end-2021. Its capitalization ratio, as measured by total debt to total capital, also increased to 40.1%. The short-term debt remained a relatively large portion of total debt with the proportion of short-term debt to total debt of 37.8% as of 31 March 2023. At the same time, the cash to short-term debt ratio was around 0.6x if excluding the restricted cash and real estate custody funds. The Company planned to invest around RMB7.8 billion for the construction of infrastructure, resettlement housing and industrial parks in the future. We expect that the Company keep reliance on external financing and its debt level will continue to increase over the next 12 to 18 months.

JPCI mainly relies on bank borrowing to meet its capital expenditure needs. The Company has maintained a good relationship with large domestic banks, such as large state-owned banks and large joint-stock commercial banks. As of 31 March 2023, it obtained total credit facilities of RMB8.6 billion and available credit facilities of RMB2.5 billion. Besides bank borrowing, JPCI had certain exposure to nonstandard financing, accounting for 20%-25% of the total debt as of 31 March 2023, mainly provided by financial leasing companies. The Company is planning to replace some of its high-cost nonstandard financing with other borrowings with lower costs in the near future.

### **Medium level of contingent risk**

The Company's credit profile is undermined by its external guarantees, which could potentially increase its repayment obligations. As of 31 March 2023, the total amount of external guarantee (including the exposure to its guarantee business) was RMB1.7 billion. After excluding the exposure to its guarantee business, the Company still had external guarantee of RMB125 million, all of which were provided to state-owned companies in Liyang City, accounting for around 1.1% of its net assets. The majority of external guarantees from guarantee

business were provided to private-owned enterprises within Liyang City, which accounted for 92.6% of its total amount of external guarantee. The related contingent risk exposure is still a key credit concern to JPCI's credit profile.

## ESG Considerations

JPCI faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

JPCI bears social risks as it implements public policy initiatives by building public infrastructure in Liyang City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

JPCI's governance considerations are also material as the Company is subject to oversight by Liyang City Government and must 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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**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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656