

## Credit Opinion

22 November 2023

## Ganzhou Jianxing Holding Investment Group Co., Ltd.

### Initial credit rating report

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

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**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Ganzhou Jianxing Holding Investment Group Co., Ltd., with stable outlook.**

#### Summary

The BBB<sub>g</sub>- long-term credit rating of Ganzhou Jianxing Holding Investment Group Co., Ltd. (“GJHI” or the “Company”) reflects (1) Zhanggong District 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 Zhanggong District Government’s capacity to provide support reflects Zhanggong District’s relatively strong economic importance in Ganzhou City, with good comprehensive strength, ongoing economic growth, and moderate fiscal self-sufficiency.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) most important position in the development of Zhanggong District; (2) high sustainability of public policy businesses; and (3) good track record of receiving government support.

However, the Company’s rating is constrained by its (1) large debt burden with relatively high short-term debt repayment pressure; and (2) moderate access to funding, with relatively high reliance on non-standard financing.

The stable outlook on GJHI’s rating reflects our expectation that the Company will maintain its most important position in the development in Zhanggong District. We also expect that the Company will continue to receive ongoing government support.

## Rating Drivers

- Most important position in the development of Zhanggong District
- High sustainability of public policy businesses
- Medium exposure to commercial activities
- Large debt burden with relatively high short-term debt repayment pressure
- Moderate access to funding, with relatively high reliance on non-standard financing
- Good track record of receiving government support

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially decrease in its exposure to commercial activities and improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its regional importance, material decrease in government payments, or deteriorated liquidity profile.

## Key Indicators

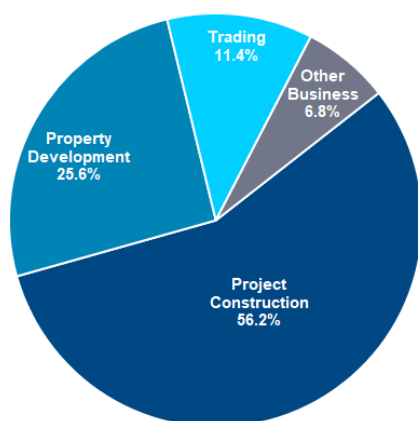
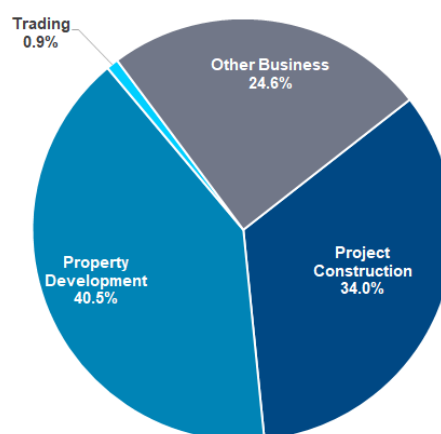
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	29.0	31.4	36.0	38.9
Total Equity (RMB billion)	10.5	10.9	13.5	14.0
Total Revenue (RMB billion)	1.8	1.4	1.8	1.3
Total Debt/Total Capital (%)	45.9	47.8	43.9	45.2

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

Source: CCXAP research

## Corporate Profile

Founded in 2018, GJHI is the most important local infrastructure investment and financing company ("LIIFC") in Zhanggong District of Ganzhou City. The Company mainly engages in infrastructure construction and resettlement housing construction in Zhanggong District. It is also engaged in commercial businesses such as property development, property leasing, waste material disposal, and trading. As of 30 June 2023, the Company was wholly owned and directly controlled by the State-owned Assets Supervision and Administration Office of Zhanggong District of Ganzhou City.

**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 Zhanggong District Government has strong capacity to provide support given its strong economic importance in Ganzhou City, with good comprehensive strength, ongoing economic growth, and moderate fiscal self-sufficiency.

Jiangxi Province is located in the central-southern part of China, and its economic growth rate outperforms in China. In 2022, the gross regional product ("GRP") of the Jiangxi Province was RMB3.2 trillion, ranking 13<sup>th</sup> among all provinces in China, with a year-on-year ("YoY") increase of 4.7%, higher than the national level. In 2022, its general budgetary revenue reached RMB294.8 billion, ranking 14<sup>th</sup> among all provinces in China.

Ganzhou City is a prefecture-level city located in the southern part of Jiangxi Province. With ongoing development of traditional industries like nonferrous metal mining and cutting-edge industries like software engineering and pharmaceutical, Ganzhou City's economy grew steadily in recent years. In 2022, Ganzhou City's GRP increased by 5.2% YoY to RMB452.4 billion, ranking 2<sup>nd</sup> among all cities in Jiangxi Province. Ganzhou Municipal Government's general budgetary revenue increased from RMB29.4 billion in 2021 to RMB30.6 billion in 2022. However, its fiscal balance ratio is relatively low, averaging at 30.3% over the past three years. As at end-2022, its outstanding governmental debt amounted to RMB159.1 billion, equivalent to 35.2% of its GRP.

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

	2020FY	2021FY	2022FY
GRP (RMB billion)	364.5	416.9	452.4
GRP Growth (%)	4.2	9.1	5.2
General Budgetary Revenue (RMB billion)	28.6	29.4	30.6
General Budgetary Expenditure (RMB billion)	97.7	96.1	98.8
Local Government Debt (RMB billion)	93.2	118.9	159.1

Source: Statistics Bureau of Ganzhou City, CCXAP research

Zhanggong District is the central urban area of Ganzhou City, with total area of 375.5 square kilometers. It has high economic and political importance in Ganzhou City, with relatively good comprehensive strength. In 2022, it ranked 85<sup>th</sup> among top 100 districts in China. In recent years, Zhanggong District has formed three pillar industries including nonferrous metal mining, pharmaceuticals, and digital economy.

With geographical advantages, Zhanggong District has achieved ongoing economic growth in recent years. From 2020 to 2022, the GRP of Zhanggong District increased from RMB52.2 billion to RMB66.1 billion, ranking 1<sup>st</sup> among all districts/counties in Ganzhou City. Over past three years, Zhanggong District Government's general budgetary revenue was stable at around RMB2.3 billion, with tax income accounting for 65.7% on average. However, Zhanggong District also has moderate fiscal self-sufficiency, averaging at 54.1% for the past three years. Zhanggong District reported outstanding governmental debt of RMB7.7 billion at end-2022, representing 11.7% of GRP.

#### Exhibit 4. Key economic and fiscal indicators of Zhanggong District

	2020FY	2021FY	2022FY
GRP (RMB billion)	52.2	60.7	66.1
GRP Growth (%)	4.6	9.9	5.8
General Budgetary Revenue (RMB billion)	2.3	2.3	2.3
General Budgetary Expenditure (RMB billion)	4.1	4.0	4.6
Local Government Debt (RMB billion)	3.9	4.8	7.7

Source: Statistics Bureau of Zhanggong District, CCXAP research

#### Government's Willingness to Provide Support

##### Most important position in the development of Zhanggong District

GJHI is the largest and most important LIIFC in Zhanggong District, conducting local infrastructure and resettlement housing construction projects through its primary subsidiary, Ganzhou Zhanggong Area Construction Investment Group Co Ltd ("GZCI"). Considering that GJHI owns large amount of infrastructure assets in Zhanggong District, we believe that the Company has most important position in the development of the region and will not be easily replaced by other state-owned enterprises in the foreseeable future.

##### High sustainability of public policy businesses

As the major city infrastructure constructor of Zhanggong District, GJHI has undertaken large amount of agent construction projects in the region, focusing on infrastructure construction and resettlement housing. As of 30 June 2023, GJHI has completed 41 infrastructure construction and 31 resettlement housing projects, with total investment of RMB16.8 billion. The Company has large amount of projects under pipeline, which can ensure the high sustainability of its public-policy businesses.

The Company undertakes infrastructure construction projects by entering into agent construction agreements with Zhanggong District Government, usually receiving 10% markup after project completion. As of 30 June 2023, the Company had 12 infrastructure projects under construction or planning, with a total planned investment of RMB3.1 billion and an uninvested amount of RMB2.7 billion.

GJHI also involves in resettlement housing construction projects in Zhanggong District under two models. Under agent construction model, the Company will enter into agreements with Zhanggong District Governments, receiving payments every year after finishing projects and making settlements with local government. Under self-balance model, GJHI will purchase the land according to government guidance and sell housing to resettled

households after project completion. As of 30 June 2023, the resettlement housing projects under construction or planning required total estimated investment of RMB5.7 billion, with uninvested amount of RMB4.7 billion.

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

GJHI has medium exposure to commercial activities, as its commercial assets accounted for 15% to 20% of total asset as of 30 June 2023. The commercial businesses include property leasing, property development, and trading. We believe that the commercial risks are largely controllable as most of the commercial businesses provide supplementary income and reasonable profit to the Company, even though susceptible to fluctuations in property market and the macro-environment.

GJHI's property development business mainly involves construction and sales of residential housing in Zhanggong District, mainly operated by its subsidiaries. As of 30 June 2023, the Company has completed 4 property development projects and achieved total sales of RMB1.1 billion. However, the overall selling rate of the completed projects is relatively low due to the downturn of the property market. Besides, the Company still has 1 real estate project under construction and 2 real estate projects under planning, exerting certain capital expenditure pressure. In addition, the income from property development is susceptible to regional property market and progress of construction. In 2022, the revenue from property development significantly increased to RMB450.5 million, with gross profit margin of 23.8%.

GJHI also engages in property leasing business, which mainly involves lease of self-owned buildings and land. The Company owns leasable buildings with total area of around 0.3 million square meters. However, the Company's rental income significantly reduced in 2022 due to the sale of some rental properties. In 2022, the Company achieved rental income of RMB30.4 million, with gross profit margin of 33.9%.

GJHI also engages in trading business, involving purchase and sale of polyethylene, concrete, and steel. This business provides supplemental income to the Company. In 2022, the Company's trading revenue increased slightly by 1.5% YoY to RMB200.8 million, with low gross profit margin at around 1%. The customers are mainly state-owned enterprises, with settlement period of one to three months.

GJHI also engages in other commercial activities such as waste material disposal, catering and hotel service, and car parking in Zhanggong District. However, these commercial activities only make small contribution to the Company's the income and profit.

### **Large debt burden with relatively high short-term debt repayment pressure**

With ongoing funding for the infrastructure construction projects and their long settlement period, GJHI has a fair debt growth over the past three years. The Company's total debt increased from RMB8.9 billion at end-2020 to RMB11.6 billion at mid-2023, with total capitalization ratio of 45.2%. However, the Company has high short-term debt repayment pressure, with short-term debt accounting for 46.4% of total debt at mid-2023. With large pipeline of construction projects under construction or planning, the Company will continue to rely on external financing to meet its future capital needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months.

GJHI's asset liquidity is moderate. The Company's assets mainly consist of receivables and inventories, both with low liquidity. The inventories are development costs from agent construction projects and property development projects, and the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 82.7% of total asset at mid-2023.

### **Moderate access to funding, with relatively high reliance on non-standard financing**

GJHI's access to funding is moderate, as reflected by its access to bank loans and bond market, but relatively high reliance on non-standard financing. The Company has good relationship with policy banks like Agricultural Development Bank of China and large domestic commercial banks like Industrial and Commercial Bank of China. As of 30 June 2023, the Company's total credit facilities were RMB8.7 billion, of which the unutilized portion was RMB1.1 billion. GJHI also has good access to onshore bond market and have issued onshore bonds through GZCI. From 2020 to 2023H1, the Company has raised RMB1.7 billion through issuance of MTN and private corporate bonds. The Company plans to issue offshore bonds to further diversify its financing channels. However, GJHI has relatively high reliance on non-standard financing, which accounted for about 29% of total debt at mid-2023.

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

GJHI has a good track record of receiving support from local government in form of projects payment, financial subsidies and capital injection. As of 30 June 2023, the Company had received government payments of RMB2.8 billion for agent construction projects. From 2020 to 2023H1, GJHI received subsidies of RMB794.6 million and capital injection of RMB3.7 billion from the local government. Considering GJHI's important position in the development of Zhanggong District and its tight relationship with the local government, we expect that the local government will continue to support GJHI over the next 12 to 18 months.

### **Low exposure to external guarantees, with manageable contingent liability risk**

GJHI has small exposure to external guarantees. As of 30 June 2023, GJHI's external guarantees amounted to RMB566.2 million, accounting for 4.2% of its net assets. All the external guarantees are provided to the state-owned enterprises located in Zhanggong District, which have low credit risks. We believe the Company's contingent liability risk is manageable.

## **ESG Considerations**

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

GJHI involved in real estate construction such as commercial properties in Zhanggong District. The Company is also exposed to social risks as a its role of public services provider. Demographic changes, public awareness and social priorities shape government's target for GJHI, or affect the government's propensity to support the Company.

GJHI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

In addition, in 2022, GZCI, GJHI's subsidiary, received self-discipline punishment from NAFMII (National Association of Financial Market Institutional Investors), reflecting that the Company's information disclosure and corporate governance need to be improved.

## **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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