

Credit Opinion

26 June 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

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

Surveillance credit rating report

CCXAP affirms the long-term credit rating of Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd. at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd. (“JMTI” or the “Company”) reflects Jimo District Government’s (1) very strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Jimo District Government’s capacity to support reflects Jimo District’s status as one of the top three 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 rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden with large investment needs; and (3) 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
- 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; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as reduced exposure to external guarantees.

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

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	36.6	40.4	46.2	48.2
Total Equity (RMB billion)	17.7	17.9	18.0	17.8
Total Revenue (RMB billion)	0.8	0.8	0.7	0.3
Total Debt/Total Capital (%)	47.5	50.7	57.2	59.3

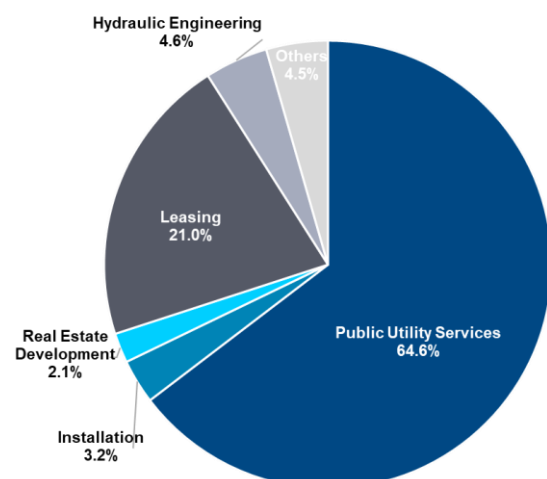
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

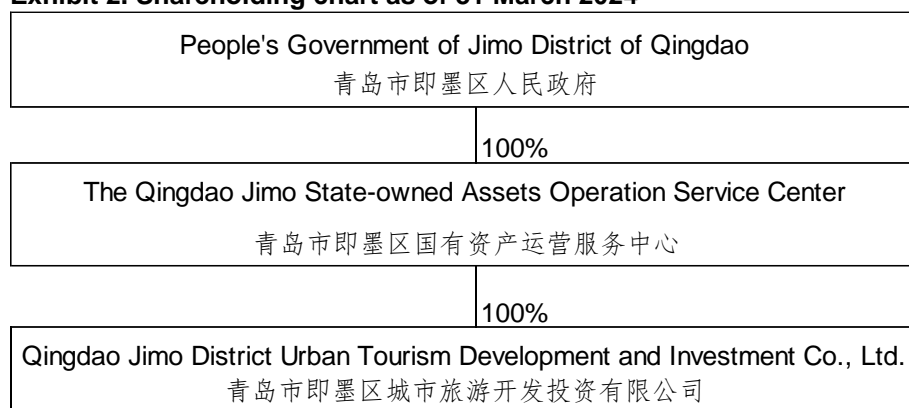
Established in June 2007, JMTI is a key local infrastructure investment and financing company ("LIIFC") in Jimo District, Qingdao City, with a focus on the provision of public utility services and infrastructure construction. The Company is also engaged in commercial activities such as self-operated project construction, real estate development, as well as leasing. As of 31 March 2024, 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 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 31 March 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

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

Shandong Province is the third largest province in China by gross regional products, 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 RMB1,576.0 billion in 2023, ranking first in Shandong Province and 13th among China's municipalities. Qingdao City also has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70% of its general budgetary expenditure, and tax incomes accounted for more than 70% of its general budgetary revenue on average. As of end-2023, the local government's debt/GRP ratio was 23.0%.

Exhibit 3. Key economic and fiscal indicators of Qingdao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,413.6	1,492.1	1,576.0
GRP Growth (%)	8.3	3.9	5.9
General Budgetary Revenue (RMB billion)	136.8	127.3	133.8
General Budgetary Expenditure (RMB billion)	170.7	169.6	171.9
Local Government Debt (RMB billion)	255.9	308.0	362.0

Source: Qingdao Municipal Government, 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 has shown continuous economic growth over the past three years. It recorded GRP of RMB145.3 billion, RMB151.3 billion, and RMB159.5 billion in 2021, 2022, and 2023, with growth rates of 6.9%, 2.6%, and 6.6% 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 around 80% of its general budgetary expenditure on average over the past three years. 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 2023, the outstanding amount of local government debt amounted to RMB20.9 billion, increasing from RMB16.3 billion at end-2022 and accounting for 13.1% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Jimo District

	2021FY	2022FY	2023FY
GRP (RMB billion)	145.3	151.3	159.5
GRP Growth (%)	6.9	2.6	6.6
General Budgetary Revenue (RMB billion)	11.6	10.0	10.6
General Budgetary Expenditure (RMB billion)	12.8	13.3	13.3
Local Government Debt (RMB billion)	12.8	16.3	20.9

Source: Jimo District Government, 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 December 2023, the Company had 6 infrastructure construction projects under construction with a total estimated investment of around RMB4.0 billion and an outstanding amount of RMB2.1 billion.

JMTI is a very important entity in providing public services including provision of heat energy (in the 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 approximately 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.

We 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. In 2023, the Company received equities and assets transfer from the local state-owned enterprise, increasing its capital reserve by approximately RMB5.8 million. In addition, the Company continued to receive operating subsidies from the local government with a total amount of RMB796.4 million in 2023. 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.

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 over 30% of its total assets, we consider the business risk in these commercial activities to be manageable as some of the self-operated projects are related to the government policies.

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, such as lease income. The Company has large construction projects and sufficient reserves. As of 31 December 2023, the Company had 8 projects under construction, with a total planned investment of approximately RMB3.8 billion and an outstanding amount of more than RMB1.5 billion. The Company also had 2 projects under planning with total investment amount of RMB2.0 billion. The relatively large investment may put more capital expenditure pressure to the Company.

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

December 2023, the Company had 2 talent apartments and 1 resettlement housing under construction with an uninvested amount of RMB4.6 billion and RMB268.2 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 which generate stable income of over RMB150 million per annum. Among them, the Eastern Breeding Pond is accounts for the majority of the Company's lease income, having renewed its lease contract with Qingdao Shengtaicheng Development Co., Ltd. in 2023.

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 2024, the Company's total debt increased to RMB26.0 billion from RMB18.5 billion as of end-2022; while its capitalization ratio, calculated as a ratio of total debt to total capital, also grew to 59.3% from 50.7% as of end-2022. At the same time, the Company had a large number of public and commercial projects under construction with a future investment of more than RMB8.5 billion, and we estimated that it would still need a large amount of investment 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. These assets accounted for about 66.0% of total assets as of 31 March 2024.

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 December 2023, the Company had total bank facilities of RMB24.0 billion, with the undrawn portion being RMB12.2 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. In 2024, JMTI issued one tranche of offshore bond, raising RMB272 million. As of 31 December 2023, bonds accounted for approximately 56.4% of its total debt, followed by bank loans (around 41%), and non-standard financing products (less than 1%). Meanwhile, the Company's weighted average financing cost was at a relatively low level of less than 5%.

High contingent risk arising from external guarantees

JMTI's credit profile is undermined by a large number of external guarantees, which could potentially increase its repayment obligations. As of 31 December 2023, the total amount of external guarantees increased to RMB9.7 billion from RMB5.2 billion as of end-2022, representing 53.7% of net assets. The guarantees are state-owned enterprises in Jimo District but none guarantees have counter-guarantee measures in place, which may increase the 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 self-governed under the supervision of the Jimo District Government and has to comply with relevant guidelines, 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer comparison

	Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd.	Qingdao Jimo District Urban Development Investment Co., Ltd.
Long-Term Credit Rating	BBB _g +	BBB _g +
Shareholder	Qingdao Jimo State-owned Assets Operation Service Centre (100%)	Qingdao Jimo State-owned Assets Operation Service Centre (100%)
Positioning	Key entity to focus on the provision of public utility services and infrastructure construction in Jimo City	Key entity to carry out affordable housing and infrastructure construction projects within Jimo District.
Total Asset (RMB billion)	46.2	62.3
Total Equity (RMB billion)	18.0	19.6
Total Revenue (RMB billion)	0.7	2.3

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company data, CCXAP research

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