

Credit Opinion

15 August 2023

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

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Zhenjiang Transportation Industry Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zhenjiang Transportation Industry Group Co., Ltd.'s BBB_g long-term credit rating, with stable outlook

Summary

The BBB_g long-term credit rating of Zhenjiang Transportation Industry Group Co., Ltd. ("ZJTI" or the "Company") reflects Zhenjiang Municipal Government's strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Zhenjiang Municipal Government's capacity to provide support reflects Zhenjiang City's ongoing economic growth, moderate fiscal metrics and increasing debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong policy role in transportation infrastructure construction of Zhenjiang City; (2) good track record of receiving government payments; and (3) diversified and stable funding sources.

However, the Company's rating is constrained by its (1) moderate sustainability for public-policy projects; (2) high debt leverage, with large short-term debt; and (3) high exposure to external guarantees, with certain contingent liability risk.

The stable outlook on ZJTI's rating reflects our expectation that Zhenjiang Municipal Government's capacity to provide support will remain stable, and the Company's characteristics such as its primary role in transportation infrastructure construction will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Strong policy role in transportation infrastructure construction of Zhenjiang City
- Moderate sustainability for public-policy projects
- High debt leverage with large short-term debt, but declining debt burden
- Low but increasing exposure to commercial business activities
- Good track record of receiving government payments
- High exposure to external guarantees, with certain contingent liability risk.

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Zhenjiang Municipal 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 materially decreasing its exposure to external guarantees or loans.

What could downgrade the rating?

The rating could be downgraded if (1) Zhenjiang Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decreasing strategic significance, decreasing government payments, or increasing exposure to risky commercial activities.

Key Indicators

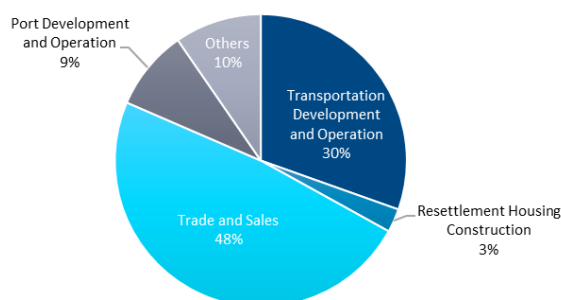
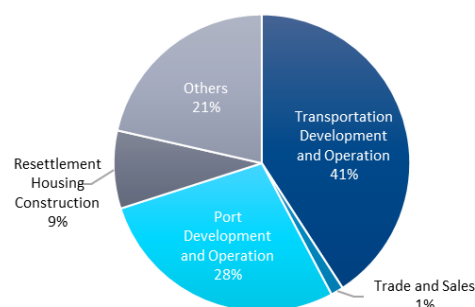
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	121.5	122.4	120.3	123.0
Total Equity (RMB billion)	48.2	48.5	50.0	49.0
Total Revenue (RMB billion)	8.1	8.3	9.0	2.1
Total Debt/Total Capital (%)	58.2	59.0	55.2	55.9

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

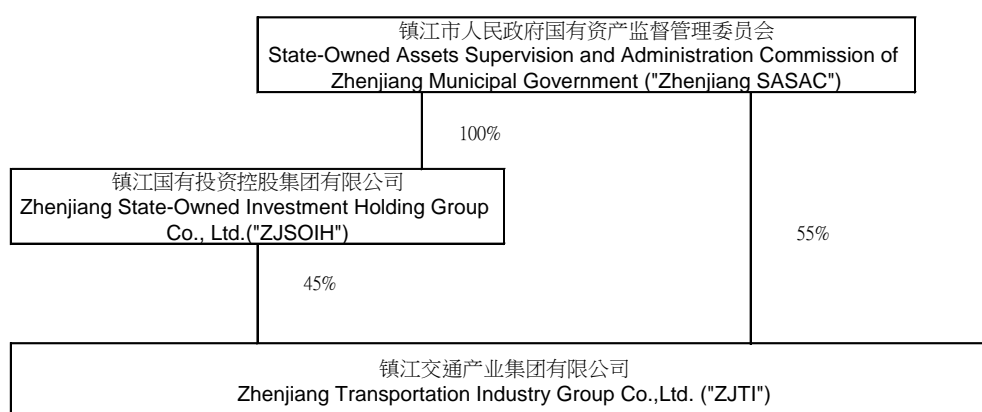
Source: CCXAP research

Corporate Profile

Established in November 1992, ZJTI is one of the key local infrastructure investment and financing companies ("LIIFCs") in Zhenjiang City, Jiangsu Province. ZJTI engages in local infrastructure construction, resettlement housing construction and land development in Zhenjiang City. ZJTI is also involved in different commercial businesses including trading, road and bridge construction services, port operations and automobile sales. ZJTI is fully owned by the Zhenjiang State-Owned Assets Supervision and Administration Commission of Zhenjiang Municipal Government ("Zhenjiang SASAC") through 55% direct ownership and 45% indirect ownership via the Zhenjiang State-owned Investment Holding Group Co., Ltd., which is wholly owned by the Zhenjiang SASAC.

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Zhenjiang Municipal Government has a strong capacity to provide support given its ongoing economic growth, moderate fiscal metrics and increasing debt burden.

Zhenjiang City is in the southern part of Jiangsu Province. Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world's leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu's economic and fiscal strength outperforms other provinces in China. In 2022, the gross regional product ("GRP") of Jiangsu Province was RMB12.3 trillion, ranking second in the country; its GRP growth rate was 2.8%. Affected by the COVID-19 pandemic and tax refund factors, Jiangsu Provincial Government's general public budget revenue decreased to RMB925.9 billion in 2022 from RMB1 trillion in 2021, with tax revenue accounting for 73.5% of its general public budget revenue. With the end of the pandemic and recovery of economic development, we expect that Jiangsu's economy will recover steadily supported by its strong integrated strength. In the first half of 2023, Jiangsu recorded a GRP of RMB6,046.5 billion, growing by 6.6% year-on-year ("YoY").

Zhenjiang City has a good economic and industrial foundation. It is a key production area of glasses and vinegar in China and is currently developing emerging industries such as high-end equipment manufacturing and new material production. It has demonstrated ongoing economic growth, with GRP growing by 2.9% YoY to RMB501.7 billion in 2022 and growing by 6.9% YoY to RMB263.5 billion in the first half of 2023. Affected by the

pandemic and the tax refund policy, the local government's general budgetary revenue decreased to RMB30.4 billion in 2022. Its fiscal balance has weakened, with the self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) decreasing from 60.3% in 2021 to 56.7% in 2022. Due to its moderate self-sufficiency, Zhenjiang City's has relied on land transfer income for fiscal balance. From 2020 to 2022, its government fund revenue increased from RMB34.7 billion to RMB40.4 billion. Meanwhile, Zhenjiang Municipal Government's debt burden increased rapidly during the past 5 years. As of 31 December 2022, its outstanding debts reached RMB218.9 billion, with debt/GRP ratio of 43.6%, the highest among the municipal cities in Jiangsu Province.

Exhibit 4. Key Economic and Fiscal Indicators of Zhenjiang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	422.0	476.3	501.7
GRP Growth (%)	3.5	9.4	2.9
General Budgetary Revenue (RMB billion)	31.2	32.8	30.4
General Budgetary Expenditure (RMB billion)	49.9	54.3	53.6
Local Government Debt (RMB billion)	156.6	191.8	218.9

Source: Statistics Bureau of Zhenjiang City, CCXAP research

Government's Willingness to Provide Support

Strong policy role in transportation infrastructure construction of Zhenjiang City

As the third largest LIIFC in Zhenjiang City by total assets and the only LIIFC engaged in infrastructure construction and land development projects in the Guantang Innovation Community Area ("Guantang Area"), ZJTI has maintained strong business position in Zhenjiang City as it owns a large number of assets in local public activities, including transportation infrastructure, public transportation, primary land development, and resettlement housing. We consider the importance of ZJTI's public assets to be high because they provide a strong benefit to local economic and social development, such as improving the local transportation network and living environment. In addition to local transportation infrastructure construction, it is also responsible for the management of some local state-owned assets such as construction services, port operations, material trading and car sales. In view of its important role and business position in Zhenjiang City, we believe that the Company is unlikely to be replaced by other LIIFCs in the future.

Moderate sustainability for public-policy projects

ZJTI assumes the function to implement Zhenjiang Municipal Government's development strategy and planning, and is mandated to conduct various local public activities, including transportation infrastructure construction, land development, and resettlement housing construction. However, due to the slowdown in local infrastructure demand and government planning, there are no transportation infrastructure and resettlement housing projects under planning, with moderate business sustainability.

ZJTI has undertaken a large number of infrastructure construction projects in Zhenjiang City, such as roads and schools. The Company has mostly completed the investments in the infrastructure projects under construction, with low future investment pressure. As of 31 March 2023, the Company had invested RMB9.5 billion into infrastructure projects under construction, with an uninvested amount of RMB0.3 billion. As there is no project under planning, the business sustainability is subject to uncertainty.

Besides, ZJTI is also responsible for resettlement housing construction in Zhenjiang City pursuant to local resettlement housing plan. All the completed projects have repurchased by the local government, with good

payment collection. With years of development, the resettlement housing projects have been mostly completed, with low future investment pressure. As of 31 March 2023, the Company had only one resettlement housing project under construction, with an uninvested amount of RMB65 million. With no project under planning, the sustainability of business is subject to uncertainty.

Entrusted by the local government, ZJTI has undertaken a large amount of land consolidation projects in the Guantang Area. The Company still has sufficient land development resources in hand, ensuring its business sustainability. As of 31 March 2023, the Company had 3,028.2 mu of land under development, with uninvested amount of RMB5.6 billion. The Company is expected to invest RMB2.4 billion into the land projects in 2023, exerting certain capital expenditure pressure. In addition, the business is susceptible to local land policy and property market, resulting in uncertainties in land income.

The Company is also the sole entity providing public transportation services in Zhenjiang City, with good business stability. Due to its public welfare nature, the business is highly dependent on government subsidies to cover the operating costs.

Low but increasing exposure to commercial business activities

ZJTI is engaged in diversified commercial activities such as trading, road and bridge construction services, inland terminal depot services, and secondary property development. As of 31 March 2023, those commercial activities accounted for less than 10% of its total assets by our estimation. Despite the Company's low exposure to commercial businesses, we expect this exposure to increase moderately in the near future given ongoing investment in self-operated industrial park projects.

ZJTI's material trading business mainly includes trading of steel and chemical raw materials, with low business risks as it is operated under demand-driven model and downstream customers are relatively dispersed. The business is the largest income source of the Company, which recorded revenue from trading of RMB4.4 billion and a tight gross margin of 0.2% in 2022.

Since 2020, ZJTI has been engaged in road and bridge engineering construction business through the acquisition of Jiangsu Road and Bridge Engineering Co., Ltd ("JSRB"). JSRB obtains engineering projects through public tendering and signs contracts with related asset owners. 80% of its projects are in Jiangsu Province, the remaining 20% are in other provinces such as Anhui, Henan, and Yunnan Provinces. JSRB has sufficient project reserves, with RMB5.8 billion of contract value under construction at end-2022. Nevertheless, although this business segment has enriched ZJTI's revenue and has brought considerable profits to the Company, the increasing project scale and advanced payment in construction projects have resulted in certain capital occupation.

ZJTI has a strong franchise in its inland terminal depot services and has priority in the development of shoreline and land areas in Zhenjiang City. Its business has expanded quickly in recent years, with revenue growing from RMB197 million in 2019 to RMB800 million in 2022. Other commercial businesses include car sales, advertising, and local finance, whose scale is small, with low contribution to the Company's income and profit.

In addition, ZJTI has started the construction of an industrial park project in April 2023, with estimated investment of RMB450 million. The Company also has two industrial park projects under planning, with total estimated investment of RMB2.0 billion. We expect the Company's exposure to commercial business will increase moderately with ongoing investment in self-operated industrial park projects.

Good track record of receiving government payments

ZJTI has a solid track record of receiving government payments in various forms, including specific funds, financial subsidies, repurchase payments, and cash injections. The Company has received strong government specific funds to address implicit local debts, totaling around RMB10.6 billion from 2020 to 2022. The Company also received ongoing financial subsidies from the government to support its road construction projects, amounting to RMB1.8 billion from 2020 to 2023Q1. The local government has also regularly made repurchase payments to the Company. As of 31 March 2023, the Company received government payments of RMB16.0 billion for the completed construction projects, including land development, infrastructure construction, and resettlement housing. We expect the local government will continue to provide payment support to the Company over the next 12 to 18 months, given its strong public policy role and large scale of uncollected project payments.

High debt leverage with large short-term debt, but declining debt burden

With ongoing financing for transportation infrastructure projects, ZJTI's debt leverage remains high, but its debt burden has demonstrated a downward trend over the past three years. The Company's total debt decreased from RMB67.1 billion at end-2020 to RMB62.1 billion at end-2023Q1, with a total capitalization ratio of 55.9%. At the same time, the Company has high short-term debt servicing pressure, with short-term debt accounting for 41% of total debt and 217% of cash reserves at end-2023Q1. Given that the Company will continue to rely on external financing to meet future capital needs from infrastructure projects, we expect that its debt leverage is likely to remain at a relatively high level in the next 12 to 18 months.

The Company's asset liquidity is weak, which may undermine its financial flexibility. The Company's assets mainly consist of inventories and investment properties, all with relatively low liquidity. The inventories are development costs from construction projects, while the investment properties mainly consist of lands pending for sale, totally accounting for about 80% of total assets as of 31 March 2023. Furthermore, as of 31 March 2023, the Company's pledged assets accounted for 23% of its total assets, mainly including investment properties.

Diversified and stable funding sources

ZJTI has multiple financing channels including bank loans, and onshore and offshore bond issuances. The Company has maintained a good relationship with different large domestic banks such as Industrial and Commercial Bank of China Limited and Bank of Communications Co., Ltd. As of 31 March 2023, it obtained total credit facilities of RMB50.6 billion, with available credit facilities of RMB17.5 billion. From January 2022 to June 2023, ZJTI had issued different financial products in the domestic bond market such as private corporate bonds, SCPs, CPs, MTNs, and PPNs, raising around RMB20 billion with an average coupon rate of 4%. In addition, the Company has a presence in the offshore debt capital market. In 2022, it issued offshore bonds of USD220 million. Furthermore, the Company has low reliance on non-standard financing, accounting for around 10% of the Company's total debt with an average cost of around 6.2% as of 31 March 2023.

High exposure to external guarantees, with certain contingent liability risk

ZJTI has high exposure to contingent liabilities, which has constrained its rating. As of 31 March 2023, the Company has provided external guarantees of RMB24.2 billion to third parties, equivalent to 49.4% of its net asset. Most of these external guarantees are provided to other local LIIFCs or state-owned enterprises, and part of these guarantees have sufficient counter-guarantee measures.

However, ZJTI has provided RMB249.0 million in external guarantees for Jiangsu Traffic Engineering Group Co., Ltd., which has been listed as person subject to enforcement. In addition, as of 31 March 2023, the Company had paid RMB154.0 million in external guarantees, but only received recovery payment of RMB4.0 million. Despite ZJTI's high exposure to contingent liabilities, we believe that it could be moderated by clear external guarantee policy and sufficient counter-guarantee measures.

ESG Considerations

ZJTI bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

The Company is also exposed to social risks as a public services provider. Demographic changes, public awareness, and social priorities shape the government's target for ZJTI and affect the government's propensity to support the Company.

ZJTI'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.

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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