

Credit Opinion

30 August 2023

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

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Hunan Jinxia Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Hunan Jinxia Development Group Co., Ltd., with stable outlook

Summary

The BBB_g+ long-term credit rating of Hunan Jinxia Development Group Co., Ltd. (“HJDG” or the “Company”) reflects Kaifu District Government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Kaifu District Government’s capacity to provide support reflects Kaifu District’s ongoing economic growth and good fiscal balance. As a provincial-level EDZ located in Kaifu District, Changsha Jinxia Economic Development Zone (“Jinxia EDZ”) is the first batch of key development zones in Hunan Province approved by the State Council and also the only comprehensive modern logistics park in Hunan Province.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong market position in infrastructure construction and land consolidation of Jinxia EDZ; (2) good track record of receiving government support; and (3) access to funding from banks and bond markets.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) fast debt growth and modest debt maturity structure; and (3) relatively low asset liquidity.

The stable outlook on HJDG’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its strong market position in the infrastructure construction and land consolidation of Jinxia EDZ.

Rating Drivers

- Strong market position in infrastructure construction and land consolidation of Jinxia EDZ
- High sustainability for public policy businesses
- Medium exposure to commercial activities
- Good track record of receiving government support
- Fast debt growth and modest debt maturity structure
- Relatively low asset liquidity
- Access to funding from banks and domestic bond market

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 regional significance or weakened access to funding.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	19.7	26.3	30.2	31.0
Total Equity (RMB billion)	7.2	11.0	12.5	12.7
Total Revenue (RMB billion)	2.0	3.7	3.7	0.7
Total Debt/Total Capital (%)	62.0	56.0	56.9	57.1

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

Source: CCXAP research

Corporate Profile

Established in 2017, HJDG is the only infrastructure construction and land consolidation entity in Jinxia EDZ of Kaifu District, Changsha City. The Company is mainly engaged in infrastructure construction and land consolidation projects in Jinxia EDZ. It has also participated in other commercial activities. As of 31 March 2023, the Company was wholly owned and ultimately controlled by Changsha Kaifu District People's Government.

Exhibit 1. Revenue Structure in 2022

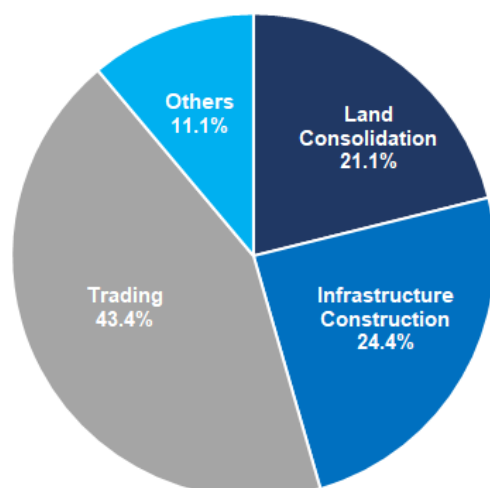
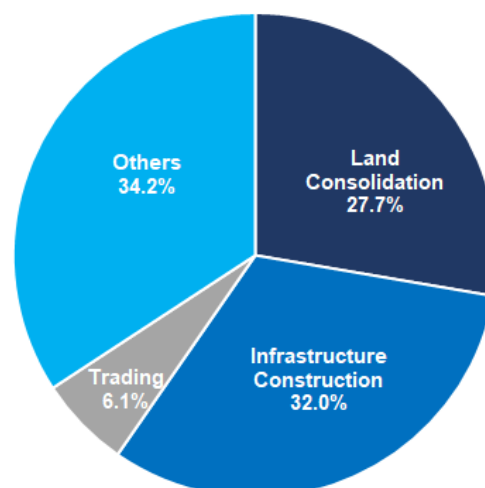


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Kaifu District Government has a strong capacity to provide support, given its ongoing economic growth, and good fiscal balance.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2022, the gross regional product ("GRP") of Hunan Province was RMB4.9 trillion, ranking 9th among all provinces in China. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB310.2 billion in 2022 from RMB325.1 billion in 2021, with tax revenue accounting for 64.6% of its general public budget revenue.

Changsha City is the capital of Hunan Province. It is an important central city in the middle reaches of the Yangtze River and one of the first batch of national historical and cultural cities. Changsha City has seven pillar industries including construction machinery, automobiles, biomedicine, electronic information, cultural creativity, tourism, and food manufacturing. Benefiting from its good location advantages and optimized tourism structure, Changsha's GRP reached over RMB1.4 trillion in 2022. Despite the impact of the COVID-19 pandemic, Changsha was still able to maintain a good economic growth rate of 4.5% in 2022. In 2022, Changsha reported a general budgetary revenue of RMB120.2 billion, with tax income accounting for 71% of its fiscal revenue. At the end of 2022, Changsha's local government debt balance was RMB287 billion, accounting for 20.6% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Changsha City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,214.3	1,327.1	1,396.6
GRP Growth (%)	4.0	7.5	4.5
General Budgetary Revenue (RMB billion)	110.0	118.8	120.2
General Budgetary Expenditure (RMB billion)	148.0	154.2	154.9
Local Government Debt (RMB billion)	222.2	255.4	287.0

Source: Statistics Bureau of Changsha City, CCXAP research

Located in the north of Changsha City, Kaifu District is one of the five districts in Changsha City. Kaifu District has jurisdiction over Jinxia EDZ and 16 streets, covering a total area of 188 square kilometers. Kaifu District has formed an industrial cluster with video cultural creation, intelligent manufacturing, modern logistics and high-end service industry as its main industries. Kaifu District has demonstrated ongoing economic growth over the years. Its GRP increased from RMB104.1 billion in 2020 to RMB118.0 billion in 2022. Its general budgetary revenue increased from RMB6.0 billion in 2020 to RMB6.4 billion in 2022. It has good fiscal balance, with self-sufficiency ratio of 81.7% on average over the past three years. In addition, the Kaifu District Government has outstanding government debt of RMB5.7 billion at end-2022, accounting for 4.8% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Kaifu District

	2020FY	2021FY	2022FY
GRP (RMB billion)	104.1	113.5	118.0
GRP Growth (%)	3.5	8.0	4.1
General Budgetary Revenue (RMB billion)	6.0	6.7	6.4
General Budgetary Expenditure (RMB billion)	7.6	7.5	8.2
Local Government Debt (RMB billion)	3.5	4.9	5.7

Source: Statistics Bureau of Kaifu District, CCXAP research

Established in 1992, Jinxia EDZ is provincial-level EDZ located in Kaifu District, covering an area of 84 square kilometers. It is the first batch of key development zones in Hunan Province approved by the State Council and also the only comprehensive modern logistics park in Hunan Province. Jinxia EDZ has formed two core industry layout, namely smart logistics and smart manufacturing. In 2022, the total tax revenue of Jinxia EDZ amounted to RMB5.0 billion, the total industrial output value above designated size amounted to RMB63 billion, and the total income of technology, processing and trade exceeded RMB100 billion.

Government's Willingness to Provide Support

Strong market position in infrastructure construction and land consolidation of Jinxia EDZ

There are two primary infrastructure construction entities in Kaifu District, including HJDG, and Changsha Kaifu City Investment Group Co., Ltd. ("KCIG"), each with clear positioning in the development of Kaifu District. KCIG is mainly responsible for infrastructure construction, resettlement housing construction and land development in Kaifu District except Jinxia EDZ. The Company is the sole entity responsible for infrastructure construction and land consolidation within Jinxia EDZ. The Company has undertaken large amount of road construction and land consolidation projects, making great contribution to local economic and social development. Given its strong market position in Jinxia EDZ and the important position of Jinxia EDZ in Kaifu District, we believe that the Company is unlikely to be replaced in the foreseeable future.

High sustainability for public policy businesses

As a sole infrastructure construction and land development entity in Jinxia EDZ, HJDG has strong competitive advantage in undertaking infrastructure construction and land development projects in the region. With large projects in the pipeline and sufficient developable land, we believe that the Company's public policy businesses are highly sustainable.

The Kaifu District Government has authorized the Management Committee of Jinxia EDZ to be responsible for infrastructure construction and land consolidation in Jinxia EDZ and to sign the agency construction agreement with the Company to undertake the construction of the projects. Upon completion of construction, the entrusting

parties will settle with the Company based on the project investment amount plus 20% markup and make payments within 5 years. As of 31 March 2023, the Company's major infrastructure construction projects under construction or planning required a total estimated investment of RMB4.6 billion, with uninvested amount of around RMB1.4 billion, while the major land consolidation projects under construction or planning required a total estimated investment of RMB3.3 billion and uninvested amount of 2.9 billion. Overall, the considerable construction projects in the pipeline and developable land of 12,123 mu in Jinxia EDZ can ensure the sustainability of the Company's public policy businesses, but exerting high capital expenditure pressure to the Company. Besides, land consolidation business is greatly affected by land market conditions and government land policies.

Medium exposure to commercial activities

In addition to public activities, HJDG is also engaged in commercial businesses, mainly including self-construction, and trading businesses. We consider the Company's exposure to commercial businesses to be medium, accounting for around 20% of its total assets. However, the construction projects have exerted certain future capital need to the Company.

The Company has been engaged in trading business mainly under demand-driven model since 2020. The main trading products are refined oil, new energy materials, asphalt, grain and engineering equipment. This business is the Company's largest source of income. In 2022, the trading revenue accounted for 43.3% of its total revenue, but with low gross profit margin of less than 2%. In addition, the Company's high reliance on its top 5 customers and suppliers indicated concentration risks in this business.

HJDG also participates in self-operated projects in Jinxia EDZ, including car parks, industrial parks, tourism, and property development, which will provide supplemental income to the Company after completion of construction. As of 31 March 2023, the Company had 15 self-operated projects under construction, with a total investment of RMB5.2 billion and uninvested amount of RMB1.7 billion, indicating certain expenditure pressure. With ongoing investment into the self-operated projects, we expect the Company's exposure to commercial activities will gradually increase.

Good track record of receiving government support

HJDG has regularly received support from the local government in the form of operating subsidies, project payments, capital injection, and asset transfers. The Company has received ongoing capital injection, significantly enhancing its capital strength. Its paid-in capital has increased from RMB238 million in 2020 to RMB438 million as of 31 March 2023, while its capital reserve significantly increased from RMB6.1 billion to RMB10.5 billion over the same period. In 2019, the Management Committee of Jinxia EDZ transferred the equity of Changsha Jinxia Customs Bonded Logistics Investment and Construction Co., Ltd. to the Company, increasing the capital reserve by RMB51 million. From 2020 to 2023Q1, the Company totally received government subsidies of about RMB384 million. Furthermore, the Company also regularly receives project payments from the local government, totaling RMB1.8 billion over the past three years. Given its strong market position in undertaking infrastructure construction projects in Jinxia EDZ, we believe that the local government will continue to provide support to the Company.

Fast debt growth and modest debt maturity structure

HJDG has a relatively fast debt growth over the past three years. The Company's total debt had increased from RMB11.7 billion at end-2020 to RMB16.8 billion at end-2023Q1, with total capitalization ratio of 57.1%. The

increase in debt is mainly attributable to the ongoing financing for the construction projects. In addition, as of 31 March 2023, the Company's short-term debt accounted for about 51.7% of total debt, indicating modest debt maturity structure and relatively high short-term debt servicing pressure. Given its large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

Relatively low asset liquidity

HJDG has relatively low asset liquidity, which may undermine its financing flexibility. As of 31 March 2023, the Company's inventories and the total receivables accounted for 70.7% of its total asset. Inventories are mainly land and investment costs for infrastructure construction projects, while the total receivables are uncollected payments from the local government, both of which are considered as low liquidity. Furthermore, as of 31 March 2023, the Company had pledged assets of RMB2.9 billion for loans, accounting for 9.3% of total assets.

Access to funding from banks and bond markets

HJDG has access to funding from banks and bond markets. The Company has an approved line of credit from diversified commercial and policy banks, such as Industrial and Commercial Bank of China and Agricultural Development Bank. As of 31 March 2023, it had obtained total credit facilities of RMB20.6 billion, with available credit facilities of RMB7.0 billion. The Company also has access to bond markets. From 2022 to mid-2023, it had issued 6 tranches of bond products, such as PPNs and MTNs, raising about RMB3.4 billion. In 2022, it raised USD145 million in offshore bond market via its subsidiary. In addition, the Company has no non-standard financing.

ESG Considerations

HJDG faces environmental risks because it has undertaken infrastructure construction and land development 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.

HJDG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Jinxia EDZ. 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.

HJDG's governance considerations are also material as the Company is subject to oversight by the Kaifu 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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