

Credit Opinion

1 September 2023

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

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Jining State-owned Assets Investment Holdings Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Jining State-owned Assets Investment Holdings Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Jining State-owned Assets Investment Holdings Co., Ltd., (“JNSI” or the “Company”) is underpinned by the Company’s (1) investment portfolio that are aligned with the government policies and industrial development in Jining City; and (2) good access to funding channels given its state-owned background.

The rating also reflects a high likelihood of government support from the Jining Municipal Government when needed, which is based on the Company’s (1) direct ownership and ultimate control by the Jining Municipal Government; (2) clear and solid strategic position of state-owned assets investment and operation in Jining City; and (3) good track record of support from the local government.

However, the rating is constrained by the Company’s (1) credit contagion risks from financial businesses; (2) most projects within the investment period, with uncertainties in investment return; and (3) modest financial profile with narrow profitability and increasing debt leverage.

The stable outlook on JNSI’s rating reflects our expectation that the willingness and ability of the local government to provide support is unlikely to change over the next 12 to 18 months. We also expect the Company to maintain a stable investment strategy and credit profile.

Rating Drivers

- High likelihood of support from the Jining Municipal Government when needed
- Investment portfolio that are aligned with the government policies and industrial development in Jining City
- Credit contagion risks from financial businesses
- Most projects within the investment period, with uncertainties in investment return
- Modest financial profile with narrow profitability and increasing debt leverage
- High refinancing needs mitigated by good access to funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Jining Municipal Government increases indicated by the Company's greater strategic importance or more policy roles in Jining City; (2) the quality of the Company's investment portfolio materially improves, demonstrated by its higher level of asset liquidity and better recurring cash flow; or (3) the Company's credit metrics improve such as lower debt leverage.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Jining Municipal Government decreases; (2) the Company materially increases risk exposure to financial businesses; or (3) the Company's credit metrics deteriorate, such as a significant increase in debt burden or a deterioration in liquidity profile.

Key Indicators

Consolidated Level	2020FY	2021FY	2022FY	2023Q1
Total Assets (RMB billion)	5.9	7.7	10.9	12.8
Total Equity (RMB billion)	2.1	3.0	4.1	4.2
Total Revenue (RMB billion)	3.2	6.6	10.5	3.7
Net Profits (RMB billion)	0.4	0.1	0.2	0.1
Return on Equity (%)	19.8	5.8	4.9	-
Holding Company Level (HoldCo)	2020FY	2021FY	2022FY	2023Q1
Total Assets (RMB billion)	2.0	3.4	3.9	4.7
Total Equity (RMB billion)	1.5	1.9	1.2	1.3
Return on Equity (%)	1.1	0.8	-1.5	-
Debt/Investment Income (x)	3.9	25.8	33.1	9.4
Cash/Short-term Debt (x)	0.05	0.1	0.2	0.3

All ratios and figures are calculated using CCXAP's adjustments.
Source: Company information, CCXAP research

Corporate Profile

Founded in August 2001, JNSI is an investing holding company that is directly owned and controlled by the State-owned Assets Supervision and Administration Commission of Jining Municipal Government ("Jining SASAC"). The Company has a high strategic position to support regional economic development, upgrade the local industrial base, and maximize the value of the state-owned assets, in accordance with the development blueprint of the Jining Municipal Government. The Company participates in four key business segments, including (1) investment and management, (2) logistic and trade, (3) medical and health, and (4) modern

services. The Company is mainly responsible for supporting industrial development by engaging in fund investment and financial services, and also diversifies to other businesses such as trading, policy-oriented grain storage, as well as medical related business.

As of 31 March 2023, JNSI was approximately 83.4% owned by the Jining SASAC and the remaining 16.6% was owned by Finance Bureau of Jining City. The Company had total assets of RMB12.8 billion and net assets of RMB4.2 billion as of the same date.

Exhibit 1. Revenue structure in 2022

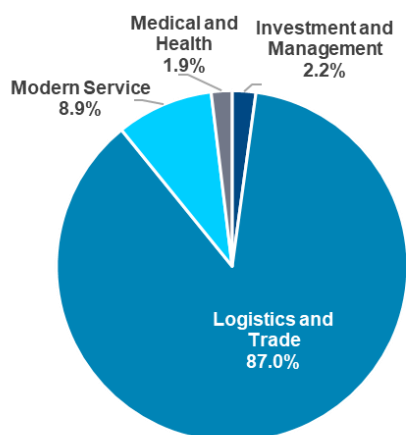
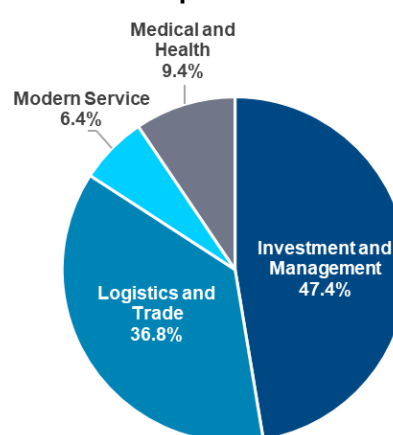


Exhibit 2. Gross profit structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2023



Source: Company information, CCXAP research

Rating Considerations

Investment portfolio that are aligned with the government policies and industrial development in Jining City

JNSI is an important municipal state-owned capital investment and operation company in Jining City, with a high strategic position. The Company is entrusted by the local government to cultivate local industrial development by conducting investments and providing diversified financial services. Since its establishment, the local government has transferred several privately held equities and state-owned equities to JNSI, continuously supporting its business expansion. The Company invests in equities and funds with a prudent and diversified investment strategy.

JNSI conducts fund investment business through its key subsidiaries, namely Jining Huida Investment Co., Ltd., Shandong Sci-Innovation Investment Co., Ltd., and Jining Investment Center Co., Ltd. The Company mainly invests in conventional and new energy conversion funds and industrial investment funds, under the guidance of the local government. Apart from government-guided investment, it also expands to market-oriented operation industry funds which are nevertheless still in a small scale. For fund investments, JNSI targets to invest in industries that are aligned with the local development such as new materials, medicine, electronic information, and intelligent equipment manufacturing. As of 31 March 2023, the Company participated in 37 funds, with a total fund size of RMB11.4 billion and subscribed size of RMB5.3 billion. As of the same date, the Company has subscribed RMB1.7 billion and paid a total amount of RMB926 million for these funds.

JNSI adheres to a prudent investment strategy that controls the size of single investment and avoid investing outside Jining City. Its investment activities are supervised by the Jining SASAC. For example, major investment decisions of JNSI are required to report to the Jining SASAC. The Company also has geographic and information advantages so that it can be easier to obtain quality projects and better monitor project execution.

Credit contagion risks from financial businesses

JNSI provides diversified financial services such as guarantees, small-sum loans, pawning and financial leasing, mainly to the local medium and micro enterprises. However, the Company is exposed to credit contagion risks especially when market conditions are stressed. The Company conducts financial businesses through subsidiaries, namely Jining Caixin Financing Guarantee Group Co., Ltd. (“Caixin Guarantee”), Shandong Huijin Financial Leasing Co., Ltd., Jining City Rencheng District Huixin Microfinance Co., Ltd., and Jining Huicheng Pawn Co., Ltd., adding supplementary income to the Company.

Caixin Guarantee is a local financial guarantor that provides guarantee services to small-to-medium enterprises in Jining City, with a policy aim. It provides services to diverse sectors such as manufacturing, wholesale and retail trade, as well as agriculture. Its guarantee business grew fast because it has newly added a number of entrepreneurial loan guarantee projects since 2021. As of 31 March 2023, the outstanding guarantees of Caixin Guarantee were approximately RMB18.1 billion, as compared to RMB862 million as of 31 December 2020. By joining the provincial policy guarantee system, Caixin Guarantee has cooperated with banks and Shandong Financing Guarantee Group Co., Ltd. for guarantee business which help lower information cost and detach some of the risk exposure. In recent years, Jining Municipal Government has implemented policies such as providing subsidies that are beneficial to Caixin Guarantee’s guarantee business. From 2020 to 2023Q1, Caixin Guarantee has taken the repayment commitments of RMB110 million in total, with a recovered amount of RMB45.7 million. Meanwhile, it has received subsidies of RMB70.1 million from the local government, which could mitigate the compensation loss.

JNSI’s other financial services such as financial leasing, small-sum loans, and pawning are still in small scale and recorded low non-performing ratios. However, we believe that these businesses may require financial support from JNSI such as shareholder lending to meet business expansion in the near future. The business risk is expected to increase regarding the increasing operation pressure for regional private-owned enterprises during the broad economic downturn.

Most projects within the investment period, with uncertainties in investment return

JNSI has good access to quality investments given the support of the Jining Municipal Government. It has invested in several high-quality funds that cover different sectors and companies entering into Jining City, such as Tongli Tyre Co., Ltd., Jining Haifu Electronic Technology Co., Ltd, as well as Shandong Superwatt Power

Tech Co., Ltd. These investments are iconic in promoting the conversion of conventional and new energy and are aligned with the government policies.

However, JNSI has a relatively limited history in exit records as most of the investments are still at the early stage of development and their investment returns are yet to be proven. The Company generally has exit plans for its fund and equity investments at the initial investment stage, such as IPO listing or project repurchases. As of 31 March 2023, the Company have sold out all of its indirect holding of Zhongtai Securities Co., Ltd., realizing a profit of about RMB260 million. The Company has withdrawn part of the principal of several funds, such as Jining Ocean Cornerstone Equity Investment Partnership, Sico Performance Material (Shandong) Co., Ltd., and Infinity Fund, with rates of return of 93%, 129%, and 136%, respectively.

The return on JNSI's investments is also subject to changes of macroeconomics, industry policy and capital market environment, which may exert higher uncertainties on future return. Most of JNSI's projects are at the initial investment stage which require a long holding period. Moreover, the Company's investment portfolio consists largely of privately held equities and state-owned equities that were freely transferred by the local government, which are considered to be less liquid. The long holding period of investments also exposed the Company to larger investment and execution risk because it may increase the uncertainty on the timing of the project exit.

Modest financial profile with narrow profitability and increasing debt leverage

JNSI's financial profile is considered modest due to narrow profitability and increasing debt leverage. The Company's income mainly comes from investment and other operating businesses. It has limited profitability as seen from its low average ROE of 0.1% at the holding company level, with a material source of revenue from fund and equity investment. It has an average ROE of 10.1% at consolidated level over the past three years. In addition, the Company demonstrated weak stability in its profitability as the Company's profitability highly links with its investment income. It reported a ROE of -1.5% and 4.9% in 2022, at holding company level and consolidated level, respectively.

Additionally, JNSI has an increasing debt leverage with rapid growth in debt, driven by its debt-funded business expansion model over the past few years. It reported a total debt of RMB1.7 billion, at holding company level, and a total debt of RMB5.1 billion, at consolidated level, as of 31 March 2023. It has total capitalization ratio of 56.9% at holding company level, and 54.9% at consolidated level, as of the same date. We expect the JNSI will maintain a moderate debt growth over the next 12-18 months according its investment needs.

High refinancing needs mitigated by good access to funding channels

JNSI is facing relatively high refinancing needs given its high level of short-term debt. As of 31 March 2023, the Company reported a short-term debt of RMB856 million at holding company level, representing 49.2% of its total debt, and RMB3.0 billion at consolidated level, representing 59.6% of its total debt. Meanwhile, the Company had unrestricted cash of RMB1.2 billion, after deducting the restricted cash of RMB762 million, which are unable to cover its short-term debt at consolidated level. The Company also had a low cash to short-term debt ratio of 0.3x at holding company level.

Nevertheless, the high refinancing pressure could be mitigated by its good access to funding channels given its state-owned status. The Company has a sufficient standby liquidity cushion and access to the domestic debt capital market. As of 31 March 2023, bank loans accounted for about 66% of its total debt, followed by bond issuance (around 12%) and non-standard financings (around 2%). The Company has established long-term

financing relationships with reliable domestic banks, with total bank facilities of RMB7.7 billion and undrawn amount of RMB4.0 billion, respectively. In addition, the Company issued a RMB600 million private corporate bond in 2023Q1, with a coupon rate of 6.0%. We also expect that the Company will continue to optimize its debt structure through increasing debt duration, which has been proved over the past three years with decreasing proportion in short-term debt.

External Support

High likelihood of support from the Jining Municipal Government

We expect a high likelihood of government support from the Jining Municipal Government to JNSI in times of need. This expectation incorporates our considerations of the Company's (1) direct ownership and ultimate control by the Jining Municipal Government; (2) clear and solid strategic position of state-owned assets investment and operation in Jining City; and (3) good track record of support from the local government, in terms of subsidies, capital injections, and asset transfers.

Jining SASAC maintains a high degree of control over JNSI's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is one of the major municipal state-owned enterprises, each with clear positioning. Jining SASAC monitors the key investment activities of the Company and participates in the Company's key decision-making processes, including the financing and investment plan. The Company is strictly assessed by the Jining Municipal Government and has to ensure the appreciation of state-owned assets.

The local government has a track record of providing support to JNSI. From 2020 to 2022, the local government injected cash, assets, as well as equities of several companies more than RMB390 million. Thanks to the continuous injections, the Company's paid-in capital and capital reserves increased to RMB1.2 billion and RMB879 million as of 31 March 2023, respectively. Moreover, the Company received operating subsidies of RMB220 million, RMB117 million, and RMB162 million from the local government. Considering the strong economic and fiscal performance of Jining City as well as the Company's strategic importance in Jining City, the local government has a strong capability and high willingness to support the Company in times of need.

Exhibit 4. Government support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Subsidies	220.0	117.3	162.2
Capital Injection			
- cash	55.3	199.0	-
- assets	2.9	-	-
- equities	53.9	81.4	-
Total	332.1	397.7	162.2

Source: Company information, CCXAP Research

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

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