

Credit Opinion

27 October 2023

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

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Jinyun County State-owned Assets Investment Operation Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jinyun County State-owned Assets Investment Operation Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jinyun County State-owned Assets Investment Operation Co., Ltd. (“JCSA” or the “Company”) reflects Jinyun County Government’s (1) relatively 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 the Jinyun County Government’s capacity to support reflects Jinyun as a highly developed industrial county in Zhejiang Province with growing economic and fiscal strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) monopoly role in the development of Jinyun County; (2) good access to funding from banks and bond markets; and (3) solid track record of receiving government support

However, the Company’s rating is constrained by its (1) high capital expenditure pressure associated with large project reserves; (2) rapid debt growth; and (3) moderate asset liquidity.

The stable outlook on JCSA’s rating reflects our expectation that the Jinyun County Government’s capacity to provide support will remain stable, and the Company will maintain its monopoly role in the infrastructure construction of Jinyun County.

Rating Drivers

- Monopoly role in the development of Jinyun County
- High capital expenditure pressure associated with large project reserves
- Low exposure to commercial activities
- Rapid debt growth and moderate asset liquidity
- Good access to funding from banks and bond markets
- Solid track record of receiving government support

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jinyun County Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved debt growth management.

What could downgrade the rating?

The rating could be downgraded if (1) Jinyun County 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 or material decreased government support.

Key Indicators

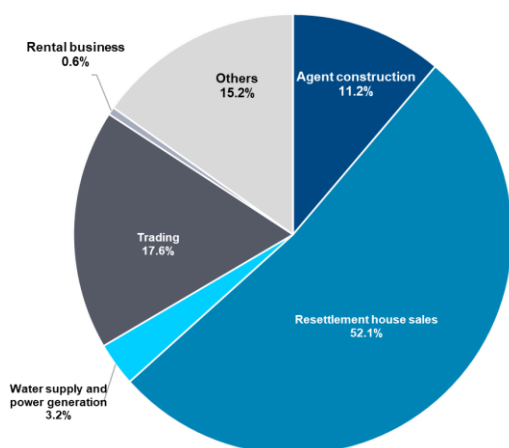
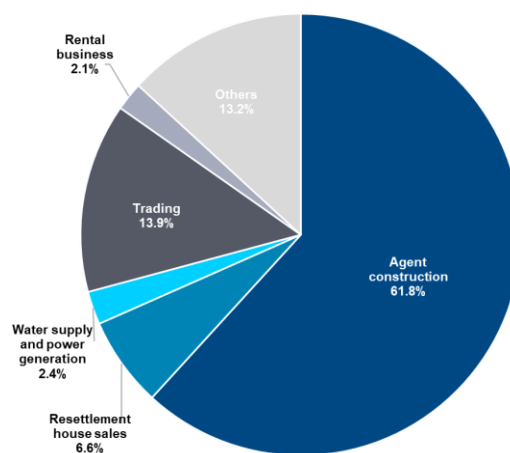
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	17.4	21.9	30.5
Total Equity (RMB billion)	11.6	13.4	18.1
Total Revenue (RMB billion)	0.8	0.9	1.6
Total Debt/Total Capital (%)	26.8	29.4	32.6

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

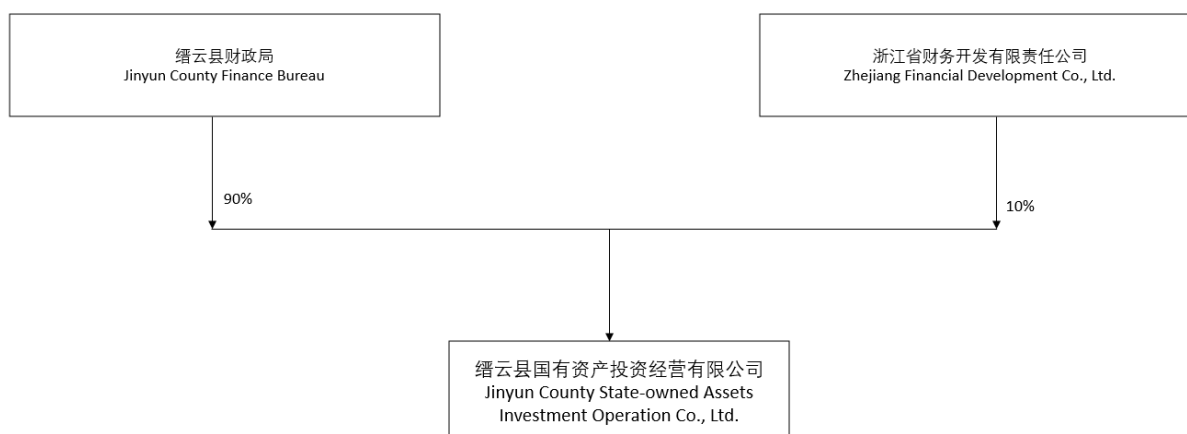
Source: CCXAP research

Corporate Profile

Founded in 2000, JSCA is the most important entity for infrastructure construction and state-owned assets operation in Jinyun County. JSCA is mainly responsible for infrastructure construction, land consolidation, resettlement housing construction, and water business in Jinyun County. The Company also engages in commercial businesses such as trading, tourism, and leasing business. As of 30 June 2023, Jinyun County Finance Bureau was the Company's actual controller and largest shareholder, holding 90% of the shares; Zhejiang Financial Development Co., Ltd. held another 10% of the shares.

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 December 2022

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Jinyun County Government has a relatively strong capacity to provide support, reflecting Jinyun as a highly developed industrial county in Zhejiang Province with growing economic and fiscal strength.

Lishui City is located in the southwest of Zhejiang Province, It is the largest prefecture-level city in Zhejiang Province with an area of 17,300 square kilometers, accounting for 1/6 of the land area of Zhejiang Province. Key industries in Lishui City include ferrous metal smelting and rolling processing industry, metal products industry, chemical raw materials and chemical products manufacturing industry, and general equipment manufacturing industry. In 2022, Lishui City achieved a gross regional product ("GRP") of RMB183.1 billion, an increase of 4.0% over the previous year. In 2023H1, Lishui City reached a GRP of RMB90.0 billion, representing a year on year ("YoY") increase of 7.6%. Its general budgetary revenue has been growing steadily over the past few years and amounted to RMB17.1 billion in 2022, representing a YoY growth of 4.3%. Lishui Municipal Government's fiscal profile is supported by stable tax income, with tax revenue/general budgetary revenue over 70% in the past three years. Government fund income is a crucial supplement to the fiscal resources of Lishui

Municipal Government. However, due to the fluctuations in the land market, its government fund income declined from RMB36.8 billion in 2020 to RMB30.9 billion in 2022.

Exhibit 4. Key Economic and Fiscal Indicators of Lishui City

	2020FY	2021FY	2022FY
GRP (RMB billion)	154.0	171.0	183.1
GRP Growth (%)	3.4	8.3	4.0
General Budgetary Revenue (RMB billion)	14.4	16.4	17.1
General Budgetary Expenditure (RMB billion)	52.7	54.6	60.7
Local Government Debt (RMB billion)	67.3	83.2	101.1

Source: Statistic Bureau of Lishui City, CCXAP research

Jinyun County is a highly developed industrial county in Lishui City. Its traditional advantageous industries such as band saws, sewing machines, and circular lamps account for about 70% of the national market share. It is also a famous tourist spot in the region with two national-level tourism spots. Benefiting from its developed industries and rich tourism resources, Jinyun County achieved a GRP of RMB30.2 billion in 2022, ranking 3rd among all counties/districts in Lishui City, an increase of 5.2% over the previous year. In 2023H1, the GRP of Jinyun County amounted to RMB14.5 billion, a YoY increase of 6.4%. The general budgetary revenue of Jinyun County was relatively small but grew steadily from RMB1.7 billion in 2020 to RMB2.1 billion in 2022, of which tax revenue accounted for 66.2%, demonstrating a strong fiscal quality. However, due to the land market fluctuations, the government fund income dropped from RMB 4.8 billion in 2020 to RMB 3.7 billion in 2022. Meanwhile, Jinyun County's general budgetary revenue has been inadequate to cover budgetary expenditures in recent years, its fiscal self-sufficiency is weak. The government debt was around 31.8% of its GRP and 77.6% of its fiscal revenue in 2022, which we believe to be moderate.

Exhibit 5. Key economic and fiscal indicators of Jinyun County

	2020FY	2021FY	2022FY
GRP (RMB billion)	24.3	27.4	30.2
GRP Growth (%)	5.5	9.9	5.2
General Budgetary Revenue (RMB billion)	1.7	2.0	2.1
General Budgetary Expenditure (RMB billion)	6.6	6.7	7.4
Local Government Debt (RMB billion)	6.6	7.9	9.6

Source: Statistic Bureau of Jinyun County, CCXAP research

Government's Willingness to Provide Support Monopoly role in the development of Jinyun County

JCSA is the only Local Infrastructure Investment and Financing Company ("LIIFC") in Jinyun County, with the largest asset scale. It operates through various subsidiaries including Jinyun County Urban Construction Investment Co., Ltd, Jinyun County Water Investment Co. Ltd ("Jinyun Water"), and Jinyun County Transportation Construction Investment Co. Ltd., its major businesses include infrastructure construction, land consolidation, and water business. As the most important state-owned assets management and infrastructure construction entity, the Company has a clear positioning and a prominent regional position, we expect that it will not be easily replaced by other state-owned entities in the foreseeable future.

High capital expenditure pressure associated with large project reserves

The Company is responsible for the construction of major projects such as factory buildings and roads. The infrastructure construction projects undertaken by the Company are mainly carried out through an agent construction model. JCSA signs entrusting construction agreements with the Jinyun County Finance Bureau, which would repurchase the construction upon project completion. At the end of each year, the Company recognizes the current year's income based on 6% of the confirmed actual investment for the year. As of 31 December 2022, the Company had 8 infrastructure construction projects under construction, with a total investment amount of RMB4.4 billion and an outstanding amount of RMB1.0 billion. Given the sufficient amount of infrastructure projects in the pipeline, we expect this business will have good sustainability but cause relatively large capital expenditure pressure on the Company at the same time.

The Company is the only primary land development entity in Jinyun County and has strong business exclusivity. The land consolidation business model is similar to that of infrastructure construction. The Company carries out land consolidation with its own funds. After the primary land development work and land transfer are completed, the entrusted party (usually the local government or other state-owned enterprises) will settle the land consolidation income with the Company based on the land development and consolidation cost plus a certain proportion. As of the end of 2022, the Company has consolidated 907.93 hectares of land, of which 121.96 hectares have been sold, and 824.01 hectares of land are currently under consolidation. Due to the large scale of the Company's remaining consolidated and untransformed land, it is expected to bring a certain amount of income to the Company. However, land transfer is implemented in accordance with government plans and requirements. Affected by local land transfer planning and real estate market downturn, the Company had no land consolidation income from 2020 to 2022.

JCSA is also the major entity responsible for the resettlement housing construction in Jinyun County. The construction model of resettlement housing is divided into two forms: self-built resettlement housing and real estate company buyback. The funds for self-built resettlement houses are raised by the Company itself, and the cost that cannot be covered by the resettlement households will be made up by the local government; funds for the resettlement houses under the real estate company buyback model are raised by the local government, and the Company repurchases them from the real estate company on behalf of the government. The sales model of resettlement housing is directional sales, and a small part of resettlement houses adopt a market-based sales model. The resettlement housing sales segment is the largest contributor to the revenue, representing 52.1% of the Company's total revenue in 2022. As of 31 December 2022, there were 6 resettlement housing projects under construction or planning, the target investment was RMB6.2 billion and the outstanding amount was RMB4.7 billion, implying certain capital expenditure pressure going forward. However, due to the frequent transfer of subsidiaries responsible for the construction of resettlement housing, the stability of the resettlement housing business remains to be seen. For instance, the Company's subsidiaries, Jinyun County Anju Construction Co., Ltd. and Jinyun County Xin'an Construction Development Co., Ltd. which were transferred out in 2019, were re-consolidated by the Company in July 2021.

Public utilities contribute significantly to local development

In addition to the public policy projects such as infrastructure construction, resettlement housing construction, and land consolidation, JCSA is also in charge of the water supply and hydropower generation business in Jinyun County. The Company's utility services business is mainly conducted by Jinyun Water. As of the end of 2022, the Company's water supply pipeline network had a total length of 162.47 kilometers, a daily water supply capacity of 50,000 tons, a water supply population of approximately 123,000, and a water supply area of

approximately 13.5 square kilometers. The Company's water supply area covers the entire Jinyun County and has a regional monopoly. In 2022, the Company's revenue from water supply and hydropower generation was RMB48.9 million, an increase of 44.7% over the previous year. We expect that the Company's utility services business will maintain good business stability. However, due to its public welfare nature, the gross profit margin of this segment is low.

In addition, Jinyun Water has undertaken a large number of water conservancy infrastructure construction projects to improve the water supply quality and ecosystem of Jinyun County. In the next three years, it plans to invest in water conservancy infrastructure construction of about RMB3 billion. These projects are carried out by using government special bonds, financial allocations, and its own funds.

Solid track record of receiving government support

As the most crucial state-owned entity in Jinyun County, JCSA maintains a close relationship with the local government. Since its establishment, the Company has received various support from the government, including financial subsidies, and equity transfers. From 2020 to 2022, the Company received government subsidies of RMB108.5 million, RMB144.0 million, and RMB229.4 million, respectively. During the same period, the government allocated capital to the Company, and the capital reserve increased by RMB2.6 billion, RMB1.2 billion, and RMB2.3 billion, respectively. In light of JCSA's important regional position in Jinyun County, we expect the Company will continue to receive ongoing support from the local government over the coming 12-18 months.

Exhibit 6. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	104.9	144.0	229.4
Capital Injections	2,587.2	1,288.9	2,260.7
Asset Injections	22.7	305.7	1,752.1
Project repayment	-	296.1	186.8
Total	2,714.8	2,034.7	4,429

Source: Company information, CCXAP research

Low exposure to commercial activities

The Company engaged in various commercial activities such as trading, tourism, and leasing business. We estimate the commercial exposure to be low as the proportion of commercial business assets accounts for less than 10% of its total assets.

The trading business is mainly operated by Jinyun County Shuitou Sand and Stone Co., Ltd. The major commodity is sand and gravel. Revenue from the trading business has recorded solid growth over the past 3 years, from around RMB17.6 million in 2020 to RMB168.2 million in 2022. The local government granted the concession rights in construction of stone mineral resources and advertising in 2022, with a book value of RMB1.3 billion, which will support the growth of its trading business.

JCSA also leveraged local tourism resources by operating the Xiandu Tourist Scenic Area (Famous Mountain of Yellow Emperor Culture in China) and Heyang Ancient Houses, of which Xiandu Tourist Scenic Area is a national-level 5A tourism spot that attracted over 0.19 million tourists in 2022. The Company's leasing business targets include apartments, shops, and factories. As of the end of 2022, the Company's shop occupancy rate

was approximately 91%. These businesses bring supplementary income to the Company, but the small scale of operations limits their contribution to the Company's overall income.

In addition, JCSA will also get involved in a commercial housing development business. There is currently a project under planning with a planned total investment of RMB2.0 billion and a construction period from 2023 to 2025. We expect that with the construction of the commercial housing project, the Company's exposure to commercial business will increase in the future.

Rapid debt growth and moderate asset liquidity

Due to the continuing investment in infrastructure construction and relatively long repayment period, the Company's total debt has increased to RMB8.8 billion in 2022 from RMB4.3 billion in 2020, with a debt growth rate of 106.7%. However, the Company's debt leverage was acceptable, while its total capitalization ratio was 32.6% in 2022. In terms of short-term debt, the weight was moderate given its short-term debt/total debt was at 33.7% as of the end of 2022.

In terms of asset liquidity, over 70% of the Company's total assets are inventory, fixed assets, and construction in progress in 2022, implying a relatively illiquid asset. Meanwhile, due to the long payment collection period of agency construction projects, the Company had a relatively large number of receivables, accounting for 11.6% of its current assets as of the end of 2022. In addition, the Company bears no contingent liability as it does not provide any external guarantee as of June 2023.

Good access to funding from banks and bond markets

The Company has strong access to funding from banks and bond markets. Bank borrowing accounted for 65.1% of its total debt while bond financing accounted for 33.9% as of the end of 2022. Non-standard financing only accounts for less than 1.0% of its total debt at the same time. As of 31 December 2022, JCSA held a total bank credit facility of RMB24.0 billion, and the available credit facility was RMB15.4 billion, indicating a good liquidity buffer. In addition, the average funding cost of the Company was 4.27%, which demonstrates the good financing capabilities of the Company.

ESG Considerations

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

JCSA bears social risks as it implements public policy initiatives by building public infrastructure in Jinyun County. 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.

JCSA's governance considerations are also material as the Company is subject to oversight by Jinyun County Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

JCSA's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its most important role in the development of Jinyun County, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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