

Credit Opinion

19 January 2024

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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Jiangyin Lingang Holding (Group) Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Jiangyin Lingang Holding (Group) Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Jiangyin Lingang Holding (Group) Co., Ltd. (“JYLG” or the “Company”) reflects Jiangyin City Government’s very strong capacity to provide support, and its high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the local government’s capacity to provide support reflects Jiangyin City’s economic importance in Wuxi City, with strong comprehensive strength, good economic fundamentals and high fiscal self-sufficiency. Jiangyin Harbour Economic Development Zone’s (“Harbour EDZ”) comprehensive strengths ranked second among all provincial-level economic development zones in Jiangsu Province in 2021.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the core entity with the largest asset scale undertaking infrastructure projects and land consolidation in Harbour EDZ; (2) good track record of government payments; and (3) good access to funding.

However, the rating is constrained by the Company’s (1) increasing short-term debt burden; (2) moderate asset liquidity; and (3) high level of contingent liabilities.

The stable outlook on JYLG’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company’s characteristics such as strategic importance in Jiangyin Harbour EDZ, are expected to remain stable over the next 12-18 months.

Rating Drivers

- Core entity in infrastructure construction in Harbour EDZ
- Low but increasing exposure to commercial activities
- Good track record of receiving government payments
- Increasing short-term debt burden and moderate asset liquidity
- Good access to funding
- High level of contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as an increase in policy importance and material decrease in contingent liabilities.

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 material increase in risky commercial activities or significantly deteriorated access to funding.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	37.1	37.7	38.2	40.0
Total Equity (RMB billion)	13.4	13.5	14.1	14.3
Total Revenue (RMB billion)	1.4	1.5	1.5	1.0
Total Debt/Total Capital (%)	60.4	61.0	58.2	60.4

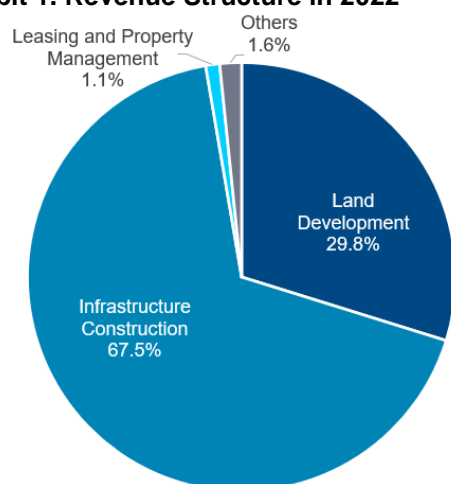
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Established in 1993, JYLG is one of the essential entities for local infrastructures in Harbor EDZ, mainly responsible for infrastructure construction and land consolidation in the region. The Company conducts its business mainly through its subsidiary, Jiangyin Lingang New City Development and Construction Co., Ltd. ("JYNC"), 97.75% stake of which was transferred to the Company in October 2022. The Company is also engaged in commercial activities such as leasing and property management. As of 30 September 2023, the Company was wholly owned and ultimately controlled by the Centralized Treasury Collection and Payment Center of Harbour EDZ.

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Jiangyin City Government has a very strong capacity to provide support for the Company, given its economic importance in Wuxi City, with strong comprehensive strength, good economic fundamentals, and high fiscal self-sufficiency.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemicals, and textile enterprises, and is the second largest province in China by gross regional products ("GRP"), after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country. In the first three quarters of 2023, Jiangsu Province achieved GRP of RMB9.3 trillion with a YoY increase of 5.8%.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's economy is relatively strong with the third highest GRP at the prefectural level in Jiangsu Province for more than 5 consecutive years. In 2022, it recorded a GRP of RMB1.5 trillion with a YoY growth rate of 3.0%. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry, which support the economic development and fiscal strength of the city. Wuxi City's fiscal profile is characterized by high fiscal sufficiency and a strong revenue-generating ability. During the past three years, its general budgetary revenue exceeded RMB100 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of above 80%. As of 31 December 2022, the local government's outstanding debt amounted to RMB187.4 billion, accounting for 12.6% of the GRP, which is one of the lowest among the province. In the first three quarters of 2023, Wuxi City achieved a GRP of RMB1.1 trillion with a YoY increase of 5.8%.

Exhibit 2. Key Economic and Fiscal Indicators of Wuxi City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,237.0	1,400.3	1,485.1
GRP Growth (%)	4.7	8.8	3.0
General Budgetary Revenue (RMB billion)	107.6	120.1	113.3
General Budgetary Expenditure (RMB billion)	121.5	135.8	136.6
Local Government Debt (RMB billion)	142.1	160.8	187.4

Source: Statistics Bureau of Wuxi City, CCXAP research

As a county-level cities under the jurisdiction of Wuxi City, Jiangyin City is an important port city and transportation hub in the Yangtze River Delta Economic circle. Jiangyin City has strong industry fundamentals and it has formed a development pattern based on traditional industries such as textiles, metallurgy, machinery and petrochemicals, with emerging industries such as information technology, high-end equipment, new energy, new materials and biomedicine. As of March 2023, the total number of listed companies in Jiangyin City has reached 59, and in 2022, 43 companies in Jiangyin ranked as the 2022 “Top 500 Chinese Enterprises”. Jiangyin City ranked second among the Top 100 Counties according to CCID for years. Jiangyin City recorded a GRP of RMB475.4 billion in 2022 with a YoY increase of 2.3%, ranking first among all counties and districts in Wuxi City. At the same time, its general budgetary revenue was RMB22.7 billion, ranking top-tier among all districts and counties in Jiangsu Province. In addition, Jiangyin City has high fiscal sufficiency and good revenue-generating ability. During the past three years, tax revenue accounted for an average of more than 80% of the general budgetary revenue. Moreover, Jiangyin City Government’s fiscal balance rate remained high, recorded at 101.3% on average for the past three years. As of end-2022, Jiangyin City Government’s outstanding debt amounted to RMB26.2 billion, accounting for about 5.5% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Jiangyin City

	2020FY	2021FY	2022FY
GRP (RMB billion)	411.4	458.0	475.4
GRP Growth (%)	3.0	8.1	2.3
General Budgetary Revenue (RMB billion)	26.0	27.4	22.7
General Budgetary Expenditure (RMB billion)	23.8	26.9	24.5
Local Government Debt (RMB billion)	20.1	22.1	26.3

Source: Statistics Bureau of Jiangyin City, CCXAP research

Located in the west of Jiangyin City, Harbour EDZ is a provincial-level economic development zones approved in September 2006. Relying on developed port conditions and policy support, Harbour EDZ has set up six characteristic industrial parks including Petrochemical New Material Industrial Park, Metal New Material Industrial Park, New Energy Industrial Park, Machinery and Equipment Industrial Park, Yangtze River Port Integrated Logistics Park and Jiangyin Comprehensive Bonded Zone. In 2022, 70 major projects have been signed and implemented in Harbour EDZ, with a total investment of RMB58.8 billion. Harbour EDZ also has good economic and fiscal fundamentals, ranking second among all provincial-level economic development zones in Jiangsu Province in 2021. In 2022, the GRP of Harbour EDZ was RMB96.9 billion; in the first half of 2023, its GRP amounted to RMB42.3 billion with a YoY increase of 6.9%. Along with the development of economy, Harbour EDZ’s fiscal ability increased. In 2022, Harbour EDZ’s general budgetary revenue was RMB4.1 billion, and in the first half of 2023 its general budgetary revenue was RMB2.4 billion with a YoY increase of 32.8%. Key enterprises in the Harbour EDZ include Envision Energy Co., Ltd. and Shuangliang Eco-Energy Saving System Co., Ltd.

Government's Willingness to Provide Support

Core entity in the development of Harbour EDZ of Jiangyin City

There are two key entities for infrastructures in Harbour EDZ, namely JYLG and Jiangyin Lingang Venture Capital Investment Co., Ltd. ("LGVC"). JYLG is responsible for major infrastructure projects in the region, and land consolidation mainly in Shengang Street and Xiagang Street, while LGVC is responsible for infrastructure construction and land consolidation in the area different from JYLG. In the future, JYLG will penetrate into industrial development and region development while LGVC will penetrate into financial investment such as fund and equity investment. JYLG is the largest company for infrastructure construction by assets with total assets of RMB40.0 billion as of 30 September 2023 in Harbour EDZ.

JYLG undertakes the infrastructure construction and land development projects within the area through JYNC, its key subsidiary, mainly under agent construction model. The Company signs the agreements with the entrusted parties and raises the construction fund itself. The counterparties will pay the Company in installments in accordance with the agreed price, which is normally construction costs plus 5% in return. The payments collection period is generally 3 to 5 years. The Company has completed various major infrastructure projects including affordable housing and municipal engineering projects such as the Gangxin Garden, Zhujiawan Resettlement Housing, and South 3rd Road and North 3rd Road Project, and the total investment was RMB6.0 billion with collected payments of RMB5.1 billion. As of 30 September 2023, the Company had 6 key projects under construction with a total planned investment of RMB4.2 billion and an uninvested amount of RMB1.1 billion, including Nanjing University of Science and Technology Jiangyin Campus Project and Xiaozhoujadian resettlement housing project. Meanwhile, the project under planning was quality and efficiency improvement project of Harbour EDZ, and the total investment was RMB300 million with 3-year construction period.

JYLG undertakes primary land development mainly in CBD area, Xiagang Street and Shengang Street in Harbour EDZ, including industrial land and commercial land, which benefit investment attraction and industrial development in the region. The Company is responsible for raising funds and after the land is transferred, will receive payments according to the actual land investment cost incurred plus a markup by cases. As of 30 September 2023, the Company had completed 5 land consolidation projects with a total investment of RMB725.4 million. The Company's projects under construction mainly concentrated on demolition and regional development with an invested amount of RMB12.4 billion. In the future, there are still additional investment needs for the land consolidation project. Overall, the realization of revenue and the collection of project payments are subject to the local land market condition and the overall arrangement of the government, with a degree of uncertainty especially during the downturn of land market.

Low but increasing exposure to commercial activities

JYLG is engaged in commercial activities including leasing and property management businesses. The Company's exposure to commercial businesses is considered to be low. JYLG's leasable assets include standard industrial plants and commercial buildings, which could provide additional recurring income. Generally, the lessees and property management counterparties are basically enterprises settled in the Harbour EDZ. As the Company will be engaged in the industrial park development, the exposure to property leasing is expected to increase in the future.

Good track record of receiving government payments

JYLG has a good track record of receiving government support such as operating subsidies. During the period from 2020 to 2023Q3, the Company continuously received operating subsidies with a collective amount of

RMB576.1 million. In addition, the Company also received payments for land consolidation projects over the past three years, with a cumulative amount of RMB1.2 billion.

Given its important role in the construction and development of Harbour EDZ, we expect that the Company would continue to receive ongoing support from the local government.

Increasing short-term debt burden and moderate asset liquidity

JYLG has reached a relatively high debt leverage and showed an increasing short-term debt burden in recent years. As of 30 September 2023, the Company's total debt increased to RMB21.0 billion from RMB20.4 billion at end-2020. At the same time, its total capitalization ratio, measured by total debt to total capital, remained at a stable level of 60.4% compared with that of end-2020. However, with a large amount of long-term debt due in one year, the Company faced an increasing short-term debt burden. As of 30 September 2023, the Company's short-term debt to total debt ratio was 56.0%, increasing from 22.7% at end-2020. Correspondingly, the Company's cash to short-term debt ratio dropped to 0.2x from 0.4x at the end of 2020. Given the Company's large capital expenditure pressure on infrastructure construction projects under construction, we expect the Company will maintain a relatively high level of debt burden for the next 12-18 months.

JYLG's asset liquidity is considered as moderate with inventories and other receivables accounting for more than 70% of the total assets as of 30 September 2023, which decreases the Company's financial flexibility. The Company's inventories mainly include costs of resettlement housing construction, road engineering construction and land developments. Since the settlement of the construction projects is greatly uncertain due to the impact of the government's repurchase arrangement, they are considered to be less liquid. The other receivables are mainly from local state-owned enterprises, accounting for 10.4% of total assets.

Good access to diversified funding channels

The Company's relatively large investment needs and short-term debt pressure could be partially supported by its good access to diversified funding channels. As the main financing entity of the Company, JYNC has good access to various sources of funding, including banks and bond market. It has maintained a good relationship with diversified large domestic banks such as the China Agricultural Development Bank and China's Industrial Bank. As of 30 September 2023, the Company had obtained total bank credit facilities of RMB11.4 billion, with an available amount of RMB1.7 billion. The Company also has a good track record for fund-raising activities in domestic capital market over the past 24 months. For example, during the first three quarters of 2023, JYNC raised a total of RMB2.0 billion by issuing 3 tranches of onshore bonds, with the coupon rates ranging from 2.99% to 3.76%. In addition, the Company has manageable exposure to non-standard financing, accounting for less than 10% of the total debt as of 30 September 2023. Considering the favorable financing environment in Jiangyin City and the Company's important strategic role within the region, we expect that the Company would maintain diversified financing channels.

High level of contingent liabilities

JYLG's credit profile is constrained by substantial external guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the Company had outstanding external guarantees of RMB11.7 billion, accounting for more than 80% of its net assets. All the external debt guarantees were provided to local state-owned companies such as Jiangyin High-tech Zone Investment and Development Co., Ltd. and Jiangyin Capson Construction Co., Ltd., which are the state-owned enterprises in Jiangyin High-tech Zone and Harbour EDZ respectively. If a credit event occurs in Jiangyin City, it may lead to large-scale cross-default.

However, we estimate most of these local SOEs are likely to be supported by the local government when necessary, so that contingent risk would be controllable.

ESG Considerations

JYLG 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.

JYLG bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development projects in Jiangyin City. 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.

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

Structural Consideration

JYLG'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 strategic importance in the development of Harbour EDZ of Jiangyin City, 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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